

Credit Scores

What it is: Would you want to save \$250,000? Improving your credit score could save you \$250,000 in saved interest costs and finances charges over your lifetime. A credit score is like your second resume and should be protected carefully. It is a calculation used by lenders to determine your ability to repay a loan and it is based on several factors including: payment history, amount of debt outstanding, length of credit history, type of credit, and new credit.

How it works: There are several credit scoring companies but the most commonly used is the FICO score which ranges from 300 to 850 and the higher the score the better. Your credit score will include information from your credit report but it does not include personal or demographic information such as age, race, address, marital status. Although income and employment don't affect the score your lender will probably include the information as part of your ability to borrow.

Why it matters: Your credit score is used in many different ways and could make a difference in the interest rate or approval; for a car loan, a house loan, insurance, an apartment rental, a job application, or utility connection without a deposit. If you are denied credit, the Equal Credit Opportunity Act requires that the creditor give you a notice with the specific reasons your application was rejected or the news that you have the right to learn the reasons if you ask within 60 days.

Who should care? Become familiar with your credit report and credit score. You can get a free copy of your credit report through www.annualcreditreport.com, or call toll-free 877-322-8228 and you can obtain your credit score through the same website for a slight fee. Although credit scoring systems are complex there are ways to improve your score.

- *Use your credit card* – This probably goes against all advice that you have heard but it is important to build a credit history. Use your credit card for small purchases and pay the bill promptly.
- *Pay your bills on time* - Even a few days can have an impact on your credit score. Call your creditors if you have had a change in your income and discuss possible payment options.
- *Don't max out your credit cards* - Many scoring systems compare the amount of debt relative to your credit limit.

- *Don't chase interest rates* - Although interest rate is an important considerationit is just one piece of your overall financial health. Often times the low interest rate is just a teaser rate and there are significant charges down the road. Instead, it is a better to establish a relationship with a local lender. If you are using your credit card responsibly then the any interest rate difference should be minimal whereas the type of credit card and length of credit history is very important in your credit score and could save considerable money in the long run. Also, it is a good idea to have just one or two credit cards vs. numerous different ones.

For more information

- Consumer Financial Protection Bureau at, www.consumerfinance.gov/askcfpb/315/what-is-my-credit-score
- Federal Trade Commission www.annualcreditreport.com, or call toll-free 877-322-8228
- Iowa State University Extension and Outreach website at www.extension.iastate.edu/humansciences/
- Iowa State University Extension and Outreach Money Tip\$ <http://blogs.extension.iastate.edu/moneytips/>