

# Understanding Your Credit Scores...



## What makes up your credit score?

- ❖ **35%** is based on your payment history.
- ❖ **30%** is based on your Capacity (the dollar amount of open credit available to you).
- ❖ **15%** is based on your length of established credit lines.
- ❖ **10%** is based on your accumulation of debt in the last 12-28 months, the number of inquiries and the opening dates.
- ❖ **10%** is based on your mix of credit (installment payment history will raise your score versus revolving credit which will lower your score).

## What will hurt your credit score?

- ❖ Missing payments (regardless of the dollar amounts, it takes 24 months to restore credit with one late payment).
- ❖ Credit Cards at capacity (Maxed out).
- ❖ Closing credit cards out (this lowers available capacity).
- ❖ Shopping for credit excessively.
- ❖ Opening up numerous trades in a short time period.
- ❖ Having more revolving loans in relation to installment loans.
- ❖ Borrowing from finance companies

## What DOES NOT affect your credit score?

- ❖ Debt ratio
- ❖ Income
- ❖ Length of residence
- ❖ Length of employment

## Approximate credit weight for each year:

- ❖ 40% is based on the last 12 months of payment history
- ❖ 30% is based on the last 13-24 months of payment history.
- ❖ 20% is based on the last 15-36 months of payment history.
- ❖ 10% is based on 37+ months of payment history.

## How to improve your credit score....

- ❖ Pay down credit cards.
- ❖ Do not close credit cards because capacity will decrease.
- ❖ Continue to make payments on time (older late pays will become less significant with time).
- ❖ Slow down on opening new accounts.
- ❖ Build solid credit history over time with consistent timely payments.
- ❖ Move revolving debt to installment debt.

# Little Actions That Can Hurt Your Credit Score a Lot

For instance, when a third party reviews a consumer's credit profile (as they do when you apply for a credit card or mortgage) it can cause your credit score to drop by as much as five points. Or, if you inadvertently charge over your credit limit - even by as little as 10% - that action can bring your credit score down as much as 100 points.

Here's something else to watch out for: If you apply for an in-store credit card, your credit score can drop by as much as 52 points. Also increasing a credit card balance by, say, \$2,000, can lower your credit score by as much as 68 points.

If you're thinking about buying a house or trying to get a car loan in the next six to 12 months, you should pay extra attention to the actions you're taking now that can affect your credit score in a negative way. "It's much easier to decrease your credit score than it is to increase it". On the other hand, if you aren't going to be seeking a loan anytime soon, remember that paying down your debt in the most efficient and aggressive way you can is the best way to improve your credit score.

## Top Three Credit Score Myths

A good credit score is one of the basic building blocks to [financial stability](#). However, even well-informed consumers may still believe in one or two of the commonly-believed myths about those crucial three digits. Here's the real truth about your credit score.

**Myth: Paying your bills on time and carrying a balance on your credit cards will give you a good credit score.**

Yes, making payments on time is important, since late payments can drag down your score significantly, but it's not enough to ensure that your score will be high. That's because 30% of your credit score is based on what's called your utilization ratio - how much of your available credit has been tapped at any given point. If you have cards with high balances, even if you make your minimum payments promptly every month, the large amount of debt you're carrying makes you look like a higher risk to the credit bureaus and will reflect poorly on your score.

**Myth: You have to make a huge financial mistake for your credit score to be negatively affected.**

In fact, just one late payment can be detrimental, and something as innocuous as opening a slew of store credit cards for the promotional discount can make you look like a credit risk, according to the credit scoring formula.

**Myth: You can improve bad credit quickly.**

The scoring formula places more weight on recent transactions, so if you had a period of financial instability or irresponsibility in your past, the best way to see your score improve is just to keep paying everything on time now, and paying down big balances to improve your utilization ratio.

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800-858-1663