CREDIT SCORES

Jon's Story

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Jon just left an interview at his dream company and felt very positive that he'd landed the job. He'd recently graduated from college and his bank balance was dwindling, so he needed a steady income. He currently had credit card bills and was trying to pay down some penalties he incurred in college when his roommate dropped out and left him with rent and utility expenses. Jon just bought a car since his klunker didn't look professional enough to match his new college graduate status. He was barely approved for the auto loan and was paying a very high interest rate due to his poor credit score.

A few days later Jon received a call from the company where he'd interviewed and was told he was their top choice; however, this organization's policy is to conduct background checks on potential employees, and they felt Jon was not a desirable candidate for the position. Jon's past history of outstanding debt, delinquent payments and poor credit portrayed him as a person who was unable to manage his money responsibly. Jon was devastated. He had no idea that a poor credit history could keep him from getting a job. A recent survey done by CareerBuilder found that 72% of employers conduct background checks on all employees they hire and of those, 29% check credit reports.

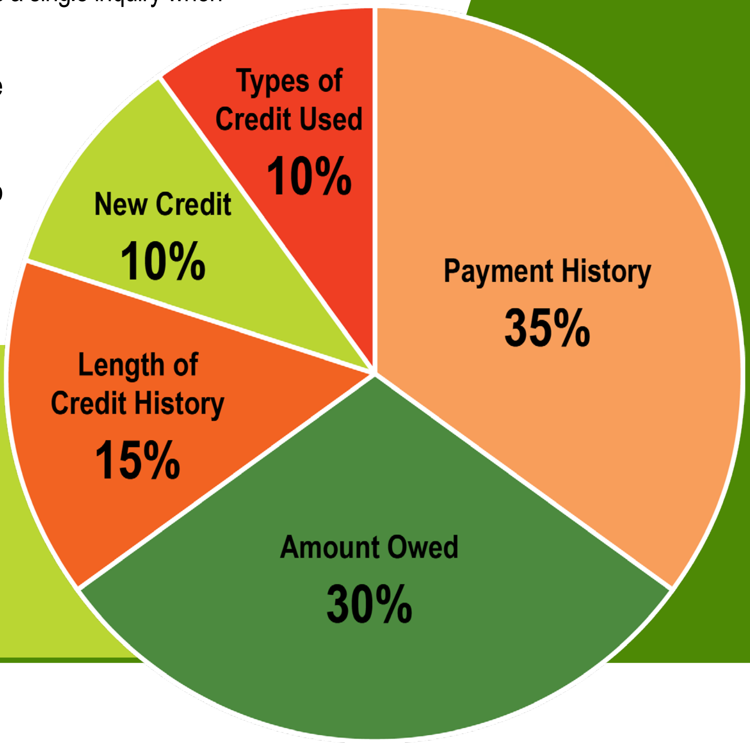
Jon decided he'd better make some changes to help improve his credit in the hopes of increasing his chances of getting a good job in the near future. Here are the steps he took to improve his credit history and score:

- The first step in the credit repair process is checking your credit report and addressing any inaccuracies. Visit **AnnualCreditReport.com** to request a free annual copy of your credit report from Experian, Equifax and TransUnion. Each report contains instructions on disputing errors. You can also use the free **myFICO** app to monitor your credit score monthly.
- Next, since payment history makes up the largest percentage of the equation when determining your credit score, make it a priority to pay every payment you owe on time, every time. Signing up for autopay on your bills is an easy way to avoid late payments. You'll need to make sure you have enough in your bank account to cover each automatic payment.
- Another important factor is your credit utilization. The utilization rate is determined by adding up the total of all your credit card balances and dividing them by the total of all your credit card limits. So, if the combined outstanding balance on your credit cards is $5,000 and you have $10,000 in credit available, then your credit utilization rate would be 50%, meaning you're using half of the total credit you have available. The general rule of thumb is that your credit utilization rate should not exceed 30%, but many financial experts recommend that you don't go above 10% if you want an excellent credit score. You might also consider contacting your credit card holder to request an increase in your credit limit.
- Always remember, if you're struggling to pay your bills, be sure to keep your creditor(s) informed. They may be able to help.

These steps alone won't instantly repair Jon's credit, but they will set him on the right path. Creditors often consider more than just the number on a scoring scale. If you put one year between yourself and your last late payment or poor credit decision, that may be enough to demonstrate that you've changed your negative credit behavior and taken positive steps toward correcting past mistakes. This may influence a creditor's decision, even if your score hasn't significantly increased.

Jon learned the hard way that his credit score is one of the most important measures of his financial health. But how are credit scores calculated? Credit scores are determined by several factors.

- **Payment history** makes up the highest percentage of your credit score. The scoring models consider your on-time payments as well as your late payments. Typically, payments made over 30 days late will be reported by your lender, which will hurt your overall score.
- **Amounts owed** come in second on the scale of determining a credit score. This category reviews how much you owe on loans or bills and how many of your accounts have balances. This is your credit utilization rate, which was discussed earlier.
- **The length of your credit history** makes up 15% of your credit score. Here, the scoring models look at the length of time you've had a credit card account. Generally, the longer you've had your accounts open, the better this factor looks to lenders.
- **New credit** can negatively affect your credit score. Submitting an application for a new credit card or loan can show that someone reviewed your credit to make a lending decision, which could lower your score. Shopping around for a better auto or home loan, however, doesn't mean you're taking out several loans. It just shows that you're trying to find the best plan for you and creditors will only count these numerous inquiries as a single inquiry when determining your score.
- **Types of credit used** basically looks at the different types of credit you've accumulated. Some examples include mortgages, student loans, auto loans and personal loans. These are fixed and have a payment due every month, which is known as installment credit. Revolving credit is also a factor in how your credit mix is calculated. Revolving credit may be your credit cards, which don't have a set balance that you pay each month.



Credit Score Range

BAD	POOR	FAIR	GOOD	EXCELLENT
300-579	580-669	670-739	740-799	800-850

A study by *Business Insider* in January 2024 states the average credit score in the U.S. is 717 and that number has been on the rise for over a decade. Credit scores range from 300 to 850 with higher scores indicating that you're more likely to successfully manage your money and pay bills on time.