



Credit Scores: What They Are and Why They Matter

What is a credit score?

A credit score measures how likely an individual is to repay debt as agreed. In simple terms, credit scores reflect how financially trustworthy a borrower is: a higher score signals that a consumer is less risky. Credit scores range from 300 (poor credit) to a maximum of 850 (exceptional credit).

Why does it matter?

Credit scores are largely used to determine borrowing rates across a range of financial products, including: mortgages, personal loans, small business loans, student loans, and auto loans, among others. Banks and other institutions use credit scores to evaluate the financial health of consumers and determine how to price their loans. A higher credit score usually translates into a lower interest rate, which could reduce borrowing costs by hundreds or even thousands of dollars, depending on the loan size.

Credit scores also have many other applications. For instance, employers often use credit checks during the hiring process, landlords can use credit scores before they rent out property, and some car insurers offer better rates to those with good credit.

Because of its widespread use, building credit is critical to attaining financial security and can have far-reaching benefits – from more affordable mortgages when buying a home to better job opportunities from employers.

What determines your credit score?

Credit scores have five main components.

1. **Payment History (35%):** Measures how well a consumer has repaid debt in the past
2. **Amount Owed (30%):** Measures how much debt a consumer has in comparison to existing credit limits
3. **Length of Credit History (15%):** Measures how long a consumer has been using credit
4. **New Accounts (10%):** Measures a consumer's use and pursuit of new credit
5. **Types of Credit (10%):** Measures the credit mix of a consumer and experience using different types of credit



What is in your credit report?

A credit report provides a comprehensive picture of a consumer's credit standing, including personal information, trade lines (a consumer's different credit-related accounts), lenders that have requested credit information, and public records and collections that document overdue debt, bankruptcies, and relevant civil lawsuits.

Finding out what your credit report is

Federal law gives consumers the right to access a free copy of their credit report once every 12 months from each of the major consumer credit reporting agencies without credit score penalties.

You can request a copy in one of the following ways:

- Online: Visit AnnualCreditReport.com
- Phone: Call 1-877-322-8338
- Mail the [Annual Credit Report Request Form](#) to:
Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281

Several federal agencies provide resources for consumers to learn more about credit scores and to answer frequently asked questions. The Consumer Financial Protection Bureau (CFPB) and Federal Trade Commission (FTC) both have online portals to assist consumers:

- CFPB: <https://www.consumerfinance.gov/ask-cfpb/category-credit-reporting/>
- FTC: <https://www.consumer.ftc.gov/articles/0152-credit-scores>

How to improve your credit score

The CFPB and FTC outline steps that can help improve credit. These include:

- Paying bills on time
- Staying at or below 30 percent of your total credit limit
- Don't spend over your credit limit
- Keeping credit accounts for longer and in good standing
- Having a mix of different types of credit (student loan, credit card, mortgage, etc.)
- Avoiding too many credit inquiries and applications for credit within a short time span