URS
Utah Retirement Systems

Understanding Your Credit Score

Credit scoring is a system creditors use to help determine whether to give you credit. It also may be used to help decide the terms you are offered or the rate you will pay for the loan. Information about you and your credit experiences, like your debt-payment history, the number and type of accounts you have, whether you make your payments by the date they're due, collection actions, outstanding debt, and the age of your accounts, is collected from your credit report. Using a statistical program, creditors compare this information to the loan repayment history of consumers with similar profiles.

For example, a credit scoring system awards points for each factor that helps predict who is most likely to repay a debt. A total number of points — a credit score — helps predict how creditworthy you are: how likely it is that you will repay a loan and make the payments when they're due.

Your credit report is a key part of many credit scoring systems. That's why it is critical to make sure your credit report is accurate. Federal law gives you the right to get a free copy of your credit reports from each of the three national credit reporting companies. To order your free annual credit report from one or all of them, visit www.annualcreditreport.com, or call toll-free 877-322-8228.

Five Key Factors That Determine Your Credit Score

Credit scoring models usually consider the five following types of information in your credit report to help compute your credit score. These five factors are weighted based upon the following percentages:

Payment History (35%): Have you paid your bills on time? Payment history can be a significant factor. If your credit report indicates that you have paid bills late, had an account referred to collections, or declared bankruptcy, it is likely to affect your score negatively.

Amounts Owed (30%): Are you maxed out? Many scoring systems evaluate the amount of debt you have compared to your credit limits. If the amount you owe is close to your credit limit, it's likely to have a negative effect on your score.

Length of Credit History (15%): How long have you had credit? Scoring will take into account how long your credit accounts have been open including the age of your oldest account, the age of your newest account, and an average of all your accounts. In addition, how long specific account accounts have been open. Typically, most credit histories get better with age.

SEE OTHER SIDE

New Credit (10%): Have you applied for new credit lately? Many scoring systems consider whether you have applied for credit recently by looking at "inquiries" on your credit report. If you have applied for too many new accounts recently, it could have a negative effect on your score.

Not every inquiry is counted: For example, inquiries by creditors who are monitoring your account or looking at credit reports to make "prescreened" credit offers are not considered liabilities.

Credit Mix (10%): What kinds of credit accounts do you have: Many scoring systems consider the type of credit accounts you have. This can include a mix from credit cards, retail accounts, installment loans, and finance company and mortgage loans. For example, under some scoring models, loans from finance companies may have a negative effect on your credit score.

How to Improve Your Credit Score

Start by fixing errors on your credit report. The biggest impact to your score is paying your bills on time. Next is to reduce the amount of debt you owe. If you need help, many nonprofit organizations offer free or low-cost credit or financial counseling services. They do so by negotiating extensions of the periods over which you can repay a loan and by asking creditors to lower the interest rates and waive certain fees.

Typical Credit Score Ranges:

Credit Score	Rating
580-669	Fair
670-739	Good
740-799	Very Good
800-850	Exceptional

Borrowers with scores above 740 generally receive better interest rates and access to higher borrowing limits, depending on the lender.

For more info:

https://www.myfico.com/credit-education/what-is-a-fico-score

https://www.consumer.ftc.gov/articles/0152-credit-scores

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