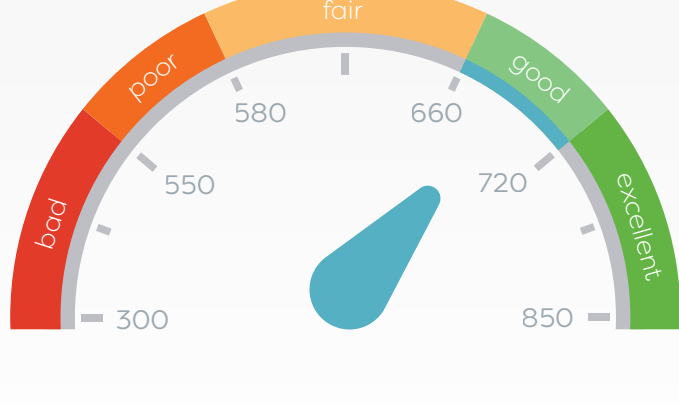


Making Sense of Your Credit Score

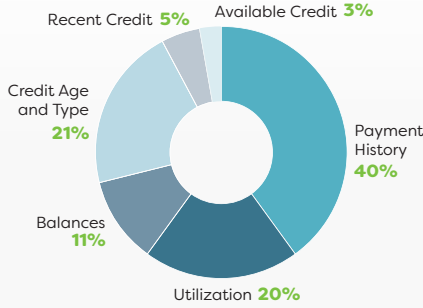
The Factors Behind the Three-Digit Figure Guiding Your Financial Life



A credit score is a simple way to assess a borrower's **financial standing** at a glance. Credit-scoring models, such as VantageScore, crunch a wide variety of information and distill it down into a three-digit score that predicts the **odds of a borrower defaulting** on a loan. A higher credit score indicates to lenders that you're a less risky borrower; a lower score suggests you're more of a risk.

What makes up a credit score?

Everyone has a credit score, but few people know what goes into these three-digit numbers. Here's a look at the various factors at play and how they affect your score.



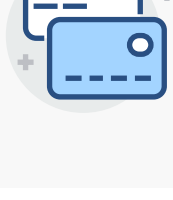
Payment History 40%



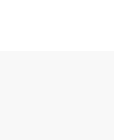
As the sole purpose of a credit score is to indicate how likely you are to repay your debt, it makes sense to look at how often you pay your bills on time. Your payment history is the most influential part of your credit score, and one missed or late payment can torpedo an otherwise stellar score.

Credit Age and Type 21%

Lenders see the length of your credit history — and the variety of credit types you've dealt with — as a sign that you're more experienced paying off your debts. This measure factors in the ages of your oldest and newest credit accounts as well as the average age of your other accounts. The older your credit history, the better your score.



Credit Utilization 20%



This straightforward measure refers to the ratio of your credit card balances compared to your credit limits. The lower your ratio, the better your score.

Balances 11%

This serves as a snapshot of your recently reported account balances, including any current and delinquent debt. Derogatory marks can factor in via bankruptcy, tax liens, accounts sent to collections, or foreclosures. These factors can stay on your credit report for at least seven years, significantly damaging your score.



Recent Credit 5%



Recent credit factors in the number of recently opened credit accounts and credit inquiries triggered for you. Hard inquiries that occur when a third-party lender pulls your report can drag down your score, but soft inquiries, such as you checking your own score, don't factor in.

Available Credit 3%

Available credit refers to the amount of credit you can readily spend — the unused balance of your credit limit. Having more available credit improves your score because it proves that you do not spend all of the funds you have available.



How can I improve?

+ Payment History

Straight and simple: Pay your bills on time. If you are in danger of missing a payment, contact your lender to see if they might be willing to grant an extension. And don't underestimate the power of regular mortgage payments, which can help your credit score soar over time.

+ Credit Age & Type

Maintain a variety of accounts over time, including credit cards and loans. Keep your accounts in good standing, and this factor will naturally improve over time. Be sure to not open too many new accounts at once, as it can dramatically reduce your credit age.

+ Credit Utilization

In general, it's advisable to not use more than 30 percent of your credit limit at any given time. Make regular payments throughout the month to keep your utilization rate in check, or seek out cards with higher credit limits.

+ Balances

Delinquent debt is a credit killer. If you have accounts that are 30 or more days past due — or placed with a debt-collection firm — work with your lender to resolve the situation as soon as possible.

+ Recent Credit

There's nothing wrong with signing up for a new credit card that suits your needs, but be careful to not apply for too many offers at once. **Don't open new lines of credit simply to take advantage of a promotional offer, and avoid hard inquiries unless they're absolutely necessary.**

+ Available Credit

Similar to credit utilization, you can either pay down your debt or apply for cards with higher credit limits. **Make regular payments to keep your available credit high, and don't spend all of your credit simply because you can.** Use your credit card only when you absolutely need to.

Now that you know the method behind the metric, get your **free credit score** through CreditSoup in less than 60 seconds.



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Resources:

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