

Everything You Need to Know About Your Credit Score



Have you checked your credit score lately? [Nearly half of Americans haven't looked in the past six months, and one in seven respondents to a recent survey never have.](#) It could be costing you. For example, you might not be getting the best rates available on everything from cell phone service to car insurance to a mortgage.

Not sure what your credit score is or how to improve it? Here are the top three questions that will help you know the score.

What is a credit score anyway?

Whether you're paying back student loans or trying to get a mortgage, lenders will check your credit score to see if you're a smart risk to lend money to. Credit scores range from 300 to 850. The higher your number, the better – it means that in the past you have responsibly paid your debts, which means new lenders are more likely to give you favorable rates. Anything above 700 is likely to qualify you for the best rates.

Credit scores are developed by the three main credit bureaus – Transunion, Equifax, and Experian. Each one of them figures out your score usually a slightly different algorithm but for the most part your results will be similar among the three bureaus.

How do I build my credit?

What many people don't realize is that your credit starts at zero and you have to build it up over time. Here are the ways that you can responsibly build your credit:

- **Pay your bills on time.** Every single time. Believe it or not, even one late or missed payment can cause a negative effect on your credit score. In fact, this relatively easy task is thought to be the No. 1 element that impacts your credit score. FICO (which is a score generated from the three credit bureaus) estimates that your on-time payment history [accounts for as much as 35 percent of your credit score](#). It's worth also taking steps to [protect your income](#) through forms of insurance like disability insurance, which helps you pay your bills if you need to miss work for an illness, injury, or pregnancy.
- **Don't take out too many credit cards.** It can be tempting to say yes to the eager cashier who's offering you a

discount if you sign up for a store card, but having too many cards can make a lender leery. After all, you theoretically could charge them all up at once.

- **Don't run your card up.** If your limit is \$2,500, it seems reasonable that you should be able to charge \$2,400, especially if you plan to pay it all off at the end of the month (which you should every month). But credit bureaus don't look at it that way. When considering your "credit utilization," they prefer you keep it right around 30 percent. That means you should only charge about \$650 on that \$2,500 card. If you feel like you can responsibly pay off more than that each month, consider getting a second no-fee card, and spread your spend out evenly.
- **Keep your cards open.** This seems to contradict the earlier advice, but stick with us: Part of your credit score is based on how long you've had credit so you want to pick a card and stick with it. If you find a card that offers better terms and it makes sense for your lifestyle, you can take it out, but don't automatically close the first card. Consider putting one routine bill on it, like your utilities, or use it only for groceries so that you're still using it occasionally but not running up a balance that might surprise you at the end of the month.
- **Don't keep a balance.** It's a common fallacy that you build credit by keeping a balance on your cards, but that is simply not true. One of the smartest financial practices you can learn is to pay your credit card bill in full every single month so you [don't rack up interest charges](#).

How can I check my credit score?

Checking your score is smart, not only because you want to

know how your efforts are paying off, but because errors are relatively common. In fact, a [study by the Federal Trade Commission \(FTC\)](#) found that one in five consumers discovered an error when checking their reports.

The good news is that it's possible to check your credit for free. Many credit cards now offer this as a service, or you can visit [Annualcreditreport.com](https://www.annualcreditreport.com) which lets you check your score on each of the credit bureaus once a year for free. To keep frequent tabs, check just one bureau at a time, which will allow you to see where you stand on one of your reports every four months. While the bureaus' numbers differ slightly, it lets you watch for anything that might be alarming.