



THE ULTIMATE FIELD GUIDE TO

# Understanding and improving your credit



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Takeaways



# What is credit?



# Borrow today, pay back tomorrow

Credit is the ability to buy things today using borrowed funds and pay back the purchase over time. Americans rely on credit—to the tune of trillions of dollars—to pay for many of life's big-ticket items, ranging from cars to education to homes. In fact, establishing and maintaining good credit could very well determine what kind of home you live in, from the ability to pass a landlord's credit check requirement to securing a mortgage or home improvement loan.



# 497M

**open credit card accounts in the United States as of 2020.**

Source: Experian, November 2020\*

# 90%

**of U.S. consumers have at least one credit card account listed on their credit report.**

The average outstanding credit card balance is **\$5,315**.

Source: Experian, January 2021\*

\*Analysis based on an anonymized sample of Experian's main consumer credit database.





# Why your credit score matters

When you apply for a loan or credit card, the lender uses your credit score as a kind of shortcut to estimating your creditworthiness—in other words, how likely you are to repay a loan. Think of it as an indicator of your financial reputation. The higher your credit score, the lower the predicted likelihood you'll fail to pay your debts. Higher scores can qualify you for lower interest rates, reduced fees and more appealing credit card bonus offers and rewards.

As part of their review, lenders consider your *credit history*—your track record of handling debt and paying your bills. For many lenders, evidence of solid credit management experience is a prerequisite for considering you as a borrower. So where do lenders look for this evidence? *Credit reports* and *credit scores*.

In this guide, we'll point out the many connections between personal financial habits, the credit reports that document them and the credit scores that distill them down to a simple (but hardly simplistic) three-digit number.



**Credit scores are based on the contents of your credit files at the national credit bureaus—records of your history of borrowing and repaying money.**





# The importance of credit



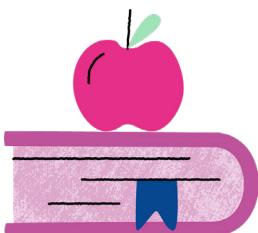
# Why it's important to understand credit

Your credit is basically your reputation around how you handle money. If you have a good reputation, it can be a powerful tool to help you improve your lifestyle by allowing you to buy things you might otherwise have to save for years to buy, including:



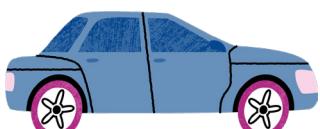
## Home

In terms of dollar volume, mortgage loans are the largest component of U.S. consumer debt by a wide margin. In the third quarter (Q3) of 2020, balances on U.S. mortgage loans totaled \$10.3 trillion, up from \$9.6 trillion in 2019, according to Experian\*.



## College education

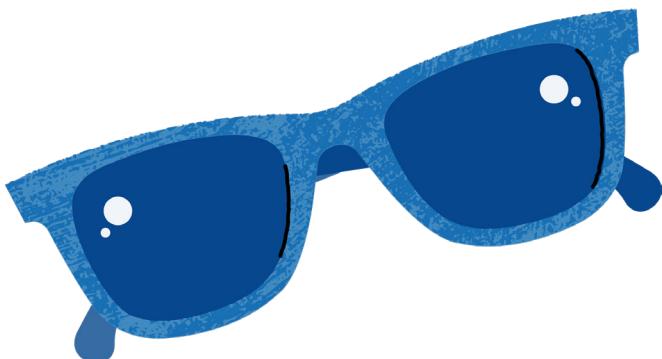
In Q3 2020, the nation's total outstanding student loan balance increased to an all-time high of \$1.57 trillion, up from \$1.4 trillion in 2019, according to Experian\*.



## Car

Auto loan balances are the third-largest source of debt in the U.S., having grown to a total of \$1.35 trillion in Q3 2020, up from \$1.3 trillion in 2019, according to Experian\*. This extended an upward trend that began in 2012.

\*Analysis based on an anonymized sample of Experian's main consumer credit database.



## The 4 types of credit

The types of credit differ in a few important ways, such as their repayment schedules and the amount required for each payment.

### Installment credit

01

With installment credit, a creditor loans you a specific amount of money, and you agree to pay back that sum, plus interest, in a series of fixed payments, or *installments*, over a set period of time. An auto loan where you make payments of \$300 each month for 48 months is an example of an installment loan. Home mortgages and student loans are other examples of installment credit.

### Revolving credit

With revolving credit, the lender permits you to borrow variable amounts up to a maximum *credit limit*. You can use some or all of that amount to make purchases, and then repay what you've borrowed in monthly payments of varying amounts. Aside from a minimum payment requirement, you can carry outstanding balances forward over one or more months (a process known as *revolving* the debt), but as you do so, the debt typically accumulates interest charges. Most credit cards are a form of revolving credit.

02

### Charge cards

03

You make purchases with a charge card the same way you do with a revolving credit card, but charge accounts require you to pay back whatever you've borrowed in full each month, without carrying any balance forward. In exchange, they spare you interest and finance charges.

### Service credit

Your contracts with service providers are all credit arrangements. You receive electricity, cellphone service, a gym membership, and so on, on the condition that you will pay for them each month.

04



# Why you need credit

Not everyone needs credit. But having good credit is helpful if you plan to finance a major purchase—such as a car, college tuition or a home—that you cannot pay for upfront in cash. That describes the vast majority of Americans. Credit cards can also help you afford items that you can't cover in a single cash payment (or that exceed the amount of cash you feel comfortable carrying around). Credit cards offer convenience, even for smaller purchases, and many of them also offer extra protections for you as a buyer.

## Extra protections:

- Money back guarantees on items that are lost or damaged in shipping
- Extended warranties so that if something breaks, you can have it replaced or get reimbursed
- Low-price guarantees that reimburse you for the difference if an item you buy with the card is advertised at a lower price

## If you have good or exceptional credit

With a good, solid credit reputation, you can apply for *rewards credit cards* that can provide even greater advantages, such as cash back refunds based on a percentage of your card purchases, credits toward airline miles or hotel stays, or points that can be used to purchase a variety of goods and services.

The importance of good credit also extends beyond purchases. Potential employers, landlords and service providers may use your credit information to help decide whether to work with you.





**If you have no need to borrow money, your credit doesn't matter.**



## TRUTH:

Credit checks are often required in connection with:



### Employment screenings

If an employer finds evidence of poor money management in your credit history, they could decline to hire you, particularly if the position you seek is financial in nature or otherwise requires responsible handling of money.

### Home or apartment rentals

If landlords and property managers find evidence of late or unpaid bills, they could demand a larger security deposit from you, or refuse to rent to you outright.

### New accounts

If a mobile carrier, cable company, utility or other service provider finds a history of spotty bill payments, it could refuse to provide you its services, or charge you a hefty security deposit or higher fees before it's willing to accept you as a customer.



# Know your rights

A federal regulation known as the [Fair Credit Reporting Act](#) guarantees your rights when employers, landlords, service companies and, yes, even lenders use your credit history to make decisions about whether to work with you or how much to charge you:



**01**

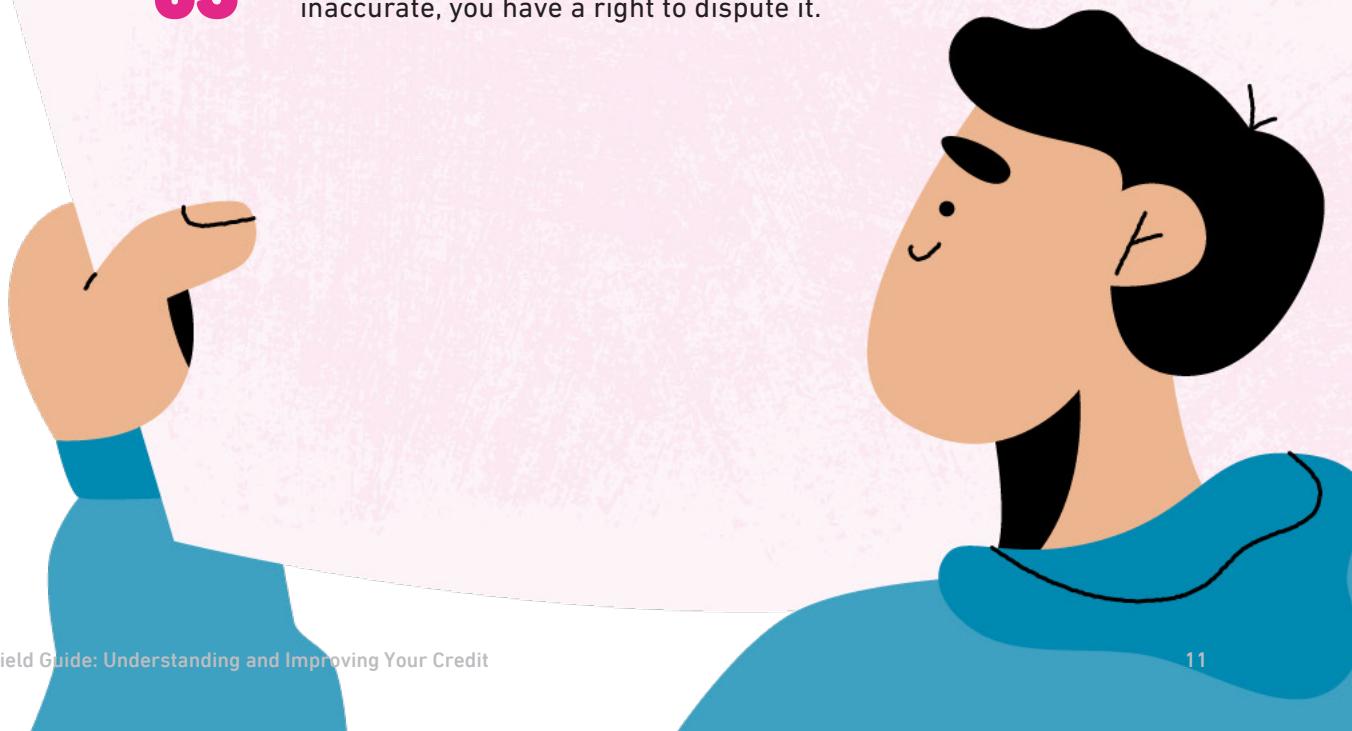
Businesses must have a “permissible purpose” under the law to access your credit report, such as lenders checking your report as part of a loan application review.

**02**

If a business decides to charge you higher fees, require extra deposits, or decide against doing business with you based on information in your credit history, they must explain why in writing.

**03**

If you believe information reflected in your credit history is inaccurate, you have a right to dispute it.





# What determines whether credit is “good”?

Think of good credit as a reflection of lenders' confidence in your ability and willingness to pay back whatever money they lend you, plus interest charges, on the schedule you agree to when you accept the loan.

When deciding whether to accept a particular borrower's credit application, lenders analyze it in terms of risk: They view borrowers who are highly likely to repay loans as low risk, and those who are less certain to pay back their debts as higher risk. Lenders differ in their tolerance for risk, and many design credit products for borrowers with specific risk profiles. And while they might disagree on precisely how to define it, all lenders agree that some applicants are too risky to take on as borrowers.

So how do lenders determine how risky a borrower is, and what do they look for in an ideal borrower?

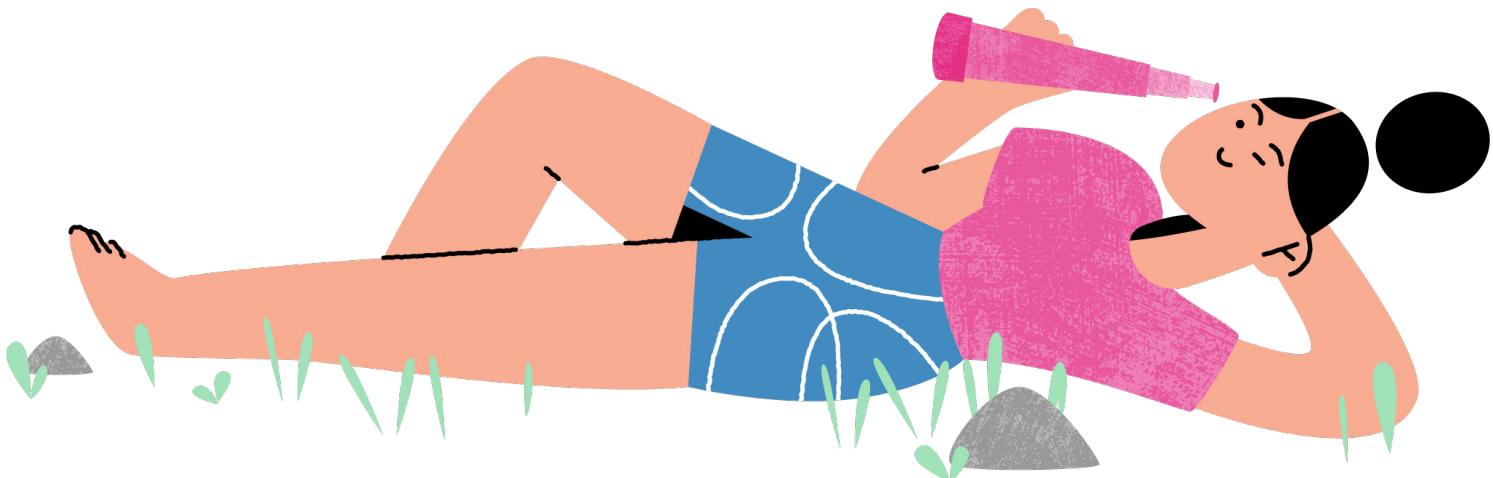
## Lenders want borrowers who:

- Have a history of making timely payments on loans and other bills
- Are at low risk of payment default (in other words, going 90 days or longer without making a payment on their debt)
- Have the means to pay back their loans

## You're in charge.

Because your creditworthiness is based on your financial history, you're in the driver's seat. If you want great credit, you can have it—once you understand how the process works.

For starters, let's consider your credit report.





# Credit reports



# What is a credit report?



Your credit report summarizes your history of managing debt and certain other financial obligations. Credit reports are maintained by three national consumer credit bureaus (Experian®, TransUnion® and Equifax®), which compile debt and payment data reported voluntarily by lenders. They're comprised of:

- Total debt you have today
- Credit accounts you opened in the past
- Your history of repaying debts (on time, late or missed)

Sometimes credit reports may also include your history of rent or utility payments, but the number of landlords and utilities that report payment information to the credit bureaus is very small.

## **Your credit report might surface issues such as:**

- Loan defaults
- Car repossession
- Home foreclosure
- Bankruptcy filings
- Collections

## The 4 sections of a typical credit report

01

### Personal information

Your name, date of birth, Social Security number, current and past addresses, and current and past employers.

02

### Accounts

Credit cards, mortgage loans, auto loans, student loans and all other credit accounts. These entries include the total amount of each loan (or total borrowing limit for credit cards); the outstanding balances on each account; and the number of monthly payments made on each account (and whether those payments were on time or late). If any accounts have been turned over to collections, they will be listed here as well.

03

### Inquiries

Records of the names of companies that have requested your credit report in connection with credit applications or other permissible purposes, and the dates those requests were made. Inquiries remain on Experian credit reports for two years, but most credit scoring systems don't consider them after one year. Checking your own credit does not affect your credit score.

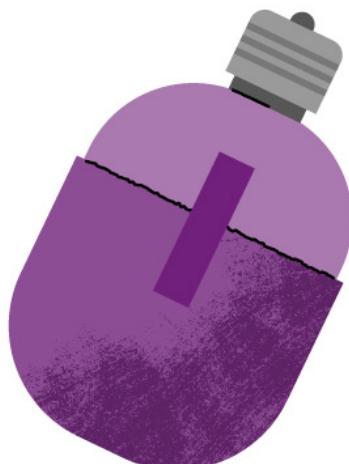
04

### Public records

Information about bankruptcies. A Chapter 7 bankruptcy will remain on your credit report for 10 years, and a Chapter 13 bankruptcy will stay for seven years. If there is no information of this kind that's applicable to you, this section may be omitted from your credit report.

## Not in a credit report

- Race
- Ethnicity
- Marital status
- Income
- Medical history
- Purchase history
- Bank balances
- Criminal records
- Level of education



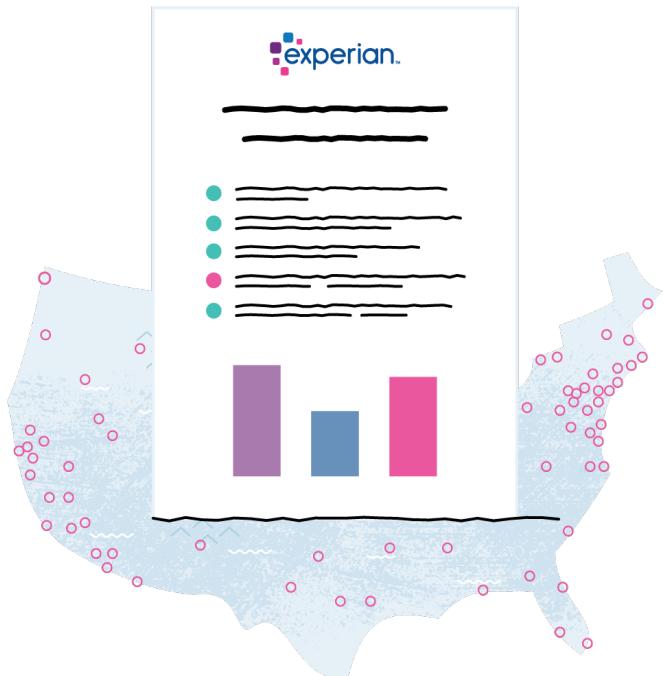


# Where does all this information come from?

Lenders, collection agencies and other companies you do business with voluntarily supply credit history information to the national credit bureaus, Experian, TransUnion and Equifax. Other entities and service providers, including landlords, may also inform credit bureaus about bill payments (and whether they are timely or late). Additionally,

Experian also obtains bankruptcy filing information from public records.

Creditors and other companies are not required by law to report borrower data to the credit bureaus every month, but most do anyway because it helps them make smart lending decisions.



**220M**

**Experian maintains credit reports for more than 220 million credit-active consumers in the U.S.**



# Credit scores



# What is a credit score?

## In a nutshell

A [credit score](#) is a three-digit number, most commonly ranging from 300 to 850, that lenders use to help assess your creditworthiness. Higher credit scores indicate that you are more likely to repay your loan (or credit card balance) on time and as agreed. Put another way, higher scores indicate lower risk that you'll fail to repay your debts.

## Higher is better

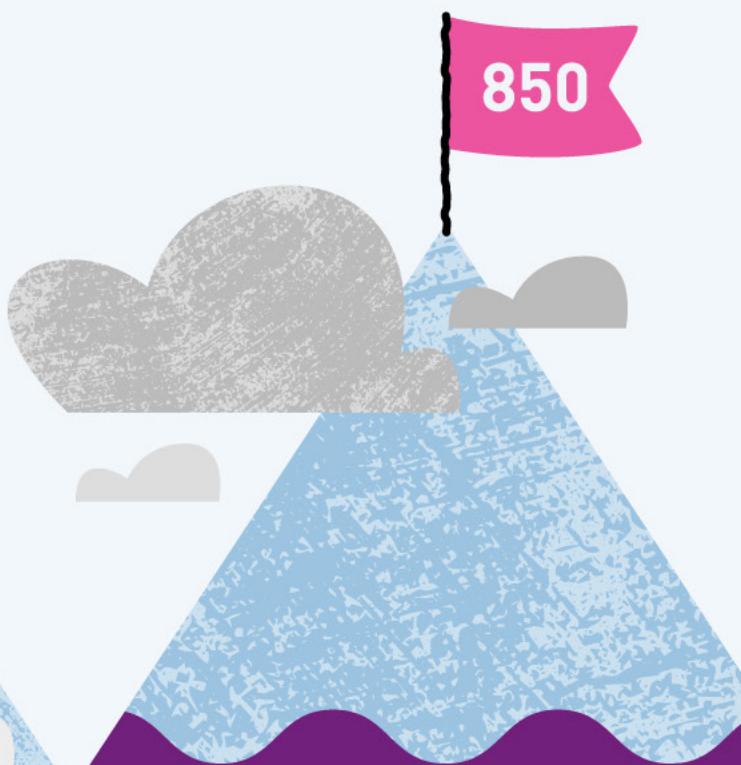
The higher your credit score, the more likely you are to receive favorable terms on a loan, such as [lower interest rates](#) and higher dollar limits. That can translate to significant savings over time, especially on big-ticket purchases like a home, where even a slight reduction in your interest rate can translate to thousands of dollars over the life of your mortgage. Higher credit scores can also qualify you for the best deals on credit cards and other personal loans.

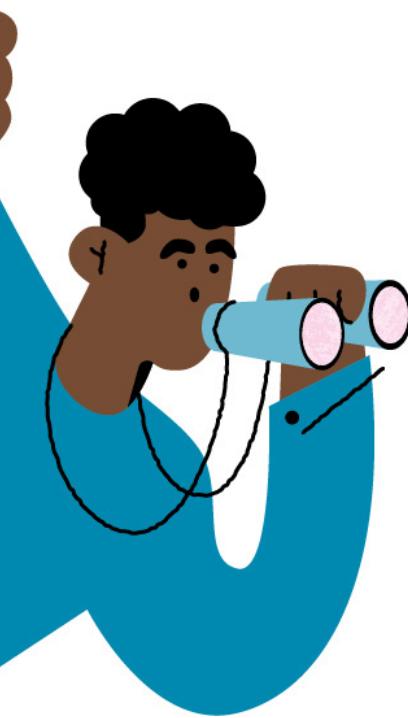
## How your credit score is used

Credit scores are widely used to make a first determination of creditworthiness. Your credit is also used to determine which loan terms (including interest rates and fees) you're offered via direct mail, online offers and "instant approvals" at car dealerships and retail outlets. Building a good credit score can give you more borrowing options and more affordable borrowing rates.

## Who can see it

In the United States, access to credit scores—and to the credit reports upon which they are based—is subject to strict usage restrictions under federal law. The Fair Credit Reporting Act limits access to your credit reports to a small number of entities and organizations, including lenders, insurance companies and landlords. With your permission, employers conducting background checks can check your credit (though they can only see a limited version of your credit report, not your credit score).





**Only people with ultra-high incomes get exceptional credit scores.**



**Anyone who has managed their finances well can achieve a high score.**



**To develop a high credit score, it takes patience, discipline and wise decision-making.**

Some people mistakenly assume that the financial freedom, flexibility, low interest and rich rewards you get with a high credit score are all reserved for the super-wealthy. Not so. While a high income can make it easier to avoid late bill payments and high card balances, wealth does not guarantee good financial management habits. And those habits are the things that reveal themselves on the credit reports that scores are derived from.

In fact, credit reports include no income information whatsoever. Credit scoring systems likewise have no knowledge of your gender, ethnic background, religion or marital status—so they can't use (or misuse) that information when quantifying your creditworthiness.



# How to achieve a high credit score

- Borrow only what you need, when you need it.
- Pay your bills on time every month.
- Keep your credit card balances below 30% of your borrowing limit—and try to stay below 10% or pay off your balances in full each month if you want to see the biggest improvement in your FICO® Score\*.
- Stay consistent over the long haul. Your score will tend to increase over time, as you demonstrate long-term financial discipline.

## What a good credit score won't do for you

Even a “perfect” FICO® Score of 850 won’t qualify you for a loan you can’t possibly afford. Before you can finance a personal jet, for instance, your lender will want to see evidence of income, savings or other assets you can tap to make the monthly payments. While that cost might exceed the grasp of middle-class households, an exceptional credit score does not.

A great credit score is possible for anyone, and having one makes it easier and more affordable to finance purchases within your means, no matter what income bracket you fall into.

## How credit scores are calculated

Computer algorithms called credit scoring models assign credit scores using complex statistical analyses that predict your likelihood of defaulting on your loans (i.e., being 90 days or more overdue on a payment). These models look for combinations of data in your credit report that historically have been associated with payment defaults across large consumer populations—and assign scores based on their prevalence (or absence) in your credit history.

There are hundreds of different credit scoring models available to lenders. Each differs somewhat in the way it calculates your score, and the specific math each one uses is kept secret for competitive purposes—and to prevent tampering or gaming the system.

\*Credit score calculated based on FICO® Score 8 model. Your lender or insurer may use a different FICO® Score than FICO® Score 8, or another type of credit score altogether. [Learn more.](#)





# What the numbers mean

Lenders have access to hundreds of credit scoring tools, including some they build and use themselves. Some are custom-designed for particular industries, such as auto financing or credit card lending, while others are considered “generic,” and applicable to a wide range of lending applications.

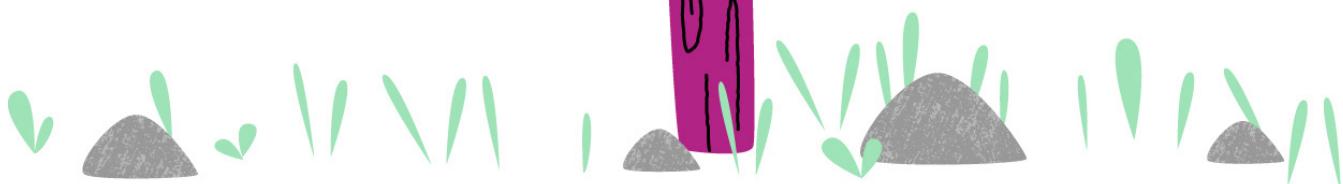
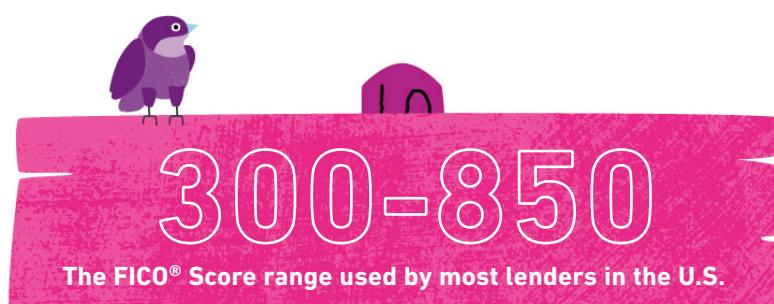
Generic scoring models all calculate scores based on the contents of your credit report from one of the three national credit bureaus. Each model differs at least slightly in the way it calculates scores, and some also differ significantly in the ranges of possible scores they generate. For instance, the FICO® Scores used by most lenders in the U.S. [range from 300 to 850](#), and the competing VantageScore® 3.0 and 4.0\* models produce scores in that same range.

By contrast, the original VantageScore models 1.0 and 2.0 generated scores in the range of 501 to 990. If you could apply different models to the contents of your credit report at the same

instant in time, you'd almost certainly see different scores from each, even among those that share a score range of 300 to 850.

So while you may see different scores in different places, federal law requires certain actions when those scores are used in credit decisions. For example, if a lender tells you that they turned down your loan request or notifies you they're charging an interest rate higher than the best one they offer, the law requires them to include a list of top factors—called **risk factors**—lowering your credit score. These can help you focus your efforts when trying to improve your credit score.

\*Calculated on the VantageScore 4.0 model. Your VantageScore 4.0 from Experian® indicates your credit risk level and is not used by all lenders, so don't be surprised if your lender uses a score that's different from your VantageScore 4.0. [Click here](#) to learn more.



## 5 factors determining your credit score

01

### Payment history

A history of paying bills on time helps your credit score, while late or missed payments tend to lower it. Payment history is the single biggest scoring factor, accounting for as much as 35% of your FICO® Score.

02

### Credit utilization

Credit utilization is the amount of available credit you're using. To determine your [credit utilization ratio](#), add up your outstanding balances on revolving credit accounts (such as credit cards) and divide that by the sum of the credit limits on those accounts. Then multiply by 100 to get your utilization percentage. If you owe \$2,500 on your credit cards with a total credit limit of \$10,000 your credit utilization rate is 25%. Your credit score will suffer as you "max out" your credit limit by pushing utilization on any one card, or in total, toward 100%. Experts recommend keeping your utilization ratio below 30% to avoid a substantial and rapid decrease in your credit scores. For the highest credit scores, you should aim to keep your utilization below 10%. Amounts owed on your accounts is responsible for about 30% of your FICO® Score.

03

### Length of credit history

Your credit scores will tend to rise over time as you gain experience handling debt. If you've only been using credit for a few months or years, you can't do anything to accelerate that, but establishing a record of timely payments early on in life will help you benefit as much as possible as your history stretches on. Length of credit history can constitute up to 15% of your FICO® Score.

04

### Credit mix

Credit scores reflect the total amount of outstanding debt you have and the types of credit you use. A variety of loans, including both installment loans and revolving credit, can lead to higher FICO® Scores. Credit mix can influence up to 10% of your FICO® Score.

05

### Recent applications

When you apply for a loan or credit card, you trigger a process known as a [hard inquiry](#), in which the lender requests your credit history (and often your credit report as well). Hard inquiries typically can have a small, short-term negative effect on your credit score. As long as you continue to pay your bills on time, your credit score typically will rebound quickly from the effects of hard inquiries. (Checking your own credit is a [soft inquiry](#) and does not impact your credit score.) Recent credit applications can account for up to 10% of your FICO® Score, but they are never the sole reason an application is declined.



# How negative information impacts your score

Certain negative entries in your credit report's payment history can severely lower credit scores for [extended periods of time](#), depending on the nature of the information. The score impact of these negative entries diminishes over time but, initially at least, they can outweigh all other factors and severely drive down your credit score. These derogatory entries include:



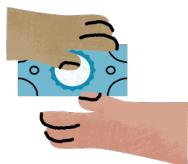
## Settled accounts

A creditor may agree to accept less than the total amount you owe, in which case your debt is considered settled. However, because you didn't repay the debt as agreed, settled accounts are still considered negative.



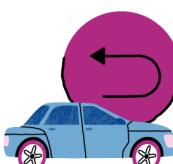
## Foreclosure

Equivalent to repossession on a home loan, [foreclosure](#) occurs when a lender takes possession of your house because you haven't paid your mortgage. Foreclosures stay on credit reports for seven years.



## Collection accounts

When a creditor feels they can no longer recoup a debt, they may hire a collection agency to try to get you to pay. Or, they may sell the debt outright to a collection agency.



## Voluntary surrender

If you are unable to pay an auto loan, and negotiate to turn the vehicle over to the lender, your account will note the voluntary surrender on your credit report.



## Repossession

When a creditor reclaims collateral for a secured loan, such as the vehicle you purchased with an auto loan, this account status will be noted on your credit reports.



## Bankruptcy

When you're no longer able to manage all your debt, you may declare [bankruptcy](#). When you file Chapter 7 bankruptcy, none of the debt included in the filing gets repaid, and notation of the bankruptcy stays on your credit report for 10 years. If you file Chapter 13, you repay a portion of the total debt you owe, and the information cycles off your credit report in seven years.

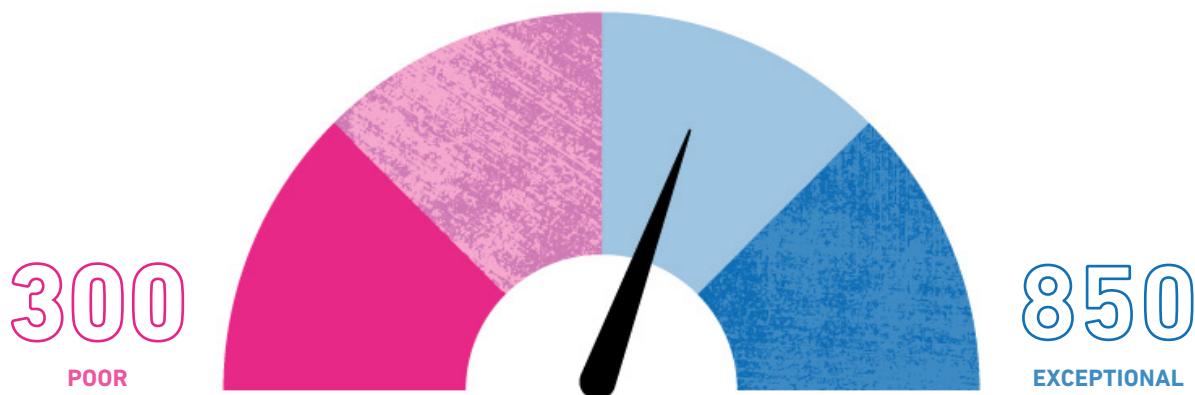


## Charge-offs

When a creditor charges off a debt, it means they've decided they won't be able to get the money you owe, and they've written off your account as a loss. They may then sell debt to a collection agency.

## What is a good credit score?

When tracking your credit scores and looking for evidence of improvement, it's important to be sure you're using scores generated by the same model. With that in mind, here's how FICO® breaks down the meaning of scores generated using the scale range of 300 to 850. Their five [score ranges](#):



### Poor: 300-579

FICO® Scores that range from 300 to 579 are categorized as "poor." Many lenders decline credit applications from people with scores in this range. Credit card applicants with scores in this range may only qualify for [secured cards](#) that require placing a cash deposit equal to the card's spending limit. Utilities may require customers with scores in this range to put down sizable security deposits. A credit score this low could be the result of bankruptcy or other major credit problems, or may simply mean you don't have much of a credit history for scoring models to base your score on.

### Fair: 580-669

FICO® Scores that range from 580 to 669 are considered "fair." Scores in this range fall below the average credit score, and lenders may disqualify their applications for mainstream loans. Individuals with scores in this range may be considered subprime borrowers, eligible only for loans with interest rates significantly higher than the best available.

### Good: 670-739

FICO® Scores in the range of 670 to 739 are rated "good." This range includes the average U.S. credit score (710 at the time of this writing), and lenders view consumers with scores in this range as "acceptable" borrowers. People with scores in this range are likely to qualify for a broad array of loans and credit cards, but are likely to be charged interest rates somewhat higher than the best available.

### Very good: 740-799

FICO® Scores in the 740 to 799 range are deemed "very good." FICO® Scores in this range are above the average credit score. Individuals with scores in this range may qualify for better interest rates from lenders.

### Exceptional: 800-850

FICO® Scores ranging from 800 to 850 are considered "exceptional." They are well above the average credit score, and people with scores in this range typically experience easy approval processes when applying for new credit. They are likely to be offered the best-available lending terms, including the lowest interest rates and fees.



# Establishing credit

## 4 ways to establish credit if you have no credit

As long as you maintain good credit habits—paying your bills on time and avoiding excessive use of credit cards and other revolving credit—your credit is likely to improve over the course of your life. But everyone has to start somewhere and, unfortunately, that creates a problem. If you don't have a credit history or any data to draw from, lenders might be hesitant to lend you the money. But you'll never establish your credit if they won't give you a chance to prove your creditworthiness. Here's what you can do:

01

### Become an **authorized user** on an established credit user's account.

A parent requesting a card for use by their child can help the youngster establish a credit history. The primary cardholder will be ultimately responsible for payments, so be sure they have a positive payment history—and discuss whether you can use the card and how your payments will be handled.

02

### Open a new credit account jointly with an established credit user.

If you're over 18, a parent, spouse or friend can apply for credit jointly with you. The loan or credit card account will be listed in both of your names, and usage and payment activity will appear on both cosigners credit reports. A word of warning, however: Both parties' credit will suffer if the card is misused. Also, some card issuers don't offer this option.

03

### Obtain a **secured credit card**.

With a secured card, the borrower puts down a cash deposit equal to the spending limit on the card. Purchases and payments will be reported to the credit bureaus and can help establish a credit history. If payments are made on time and balances stay low, secured cards can be an excellent way to build credit.

04

### Get a **credit-builder loan**.

This special type of loan, [available mainly from credit unions and small banks](#), is designed to promote savings and help you establish or rebuild a positive payment history. Instead of giving you the borrowed sum to use, the lender places it in a savings account that you cannot touch. As long as you make payments on time, when you've repaid the loan in full, the borrowed sum is released to you, possibly including interest. All the while, your loan payments are reported to the national credit bureaus, helping you establish a positive credit history. (If you miss payments, that will reflect negatively on your credit, and the lender can take back the funds from the savings account to settle the loan.) When researching credit-builder loans, make sure the provider reports payments to the credit bureaus.



# How marriage and divorce can impact your credit

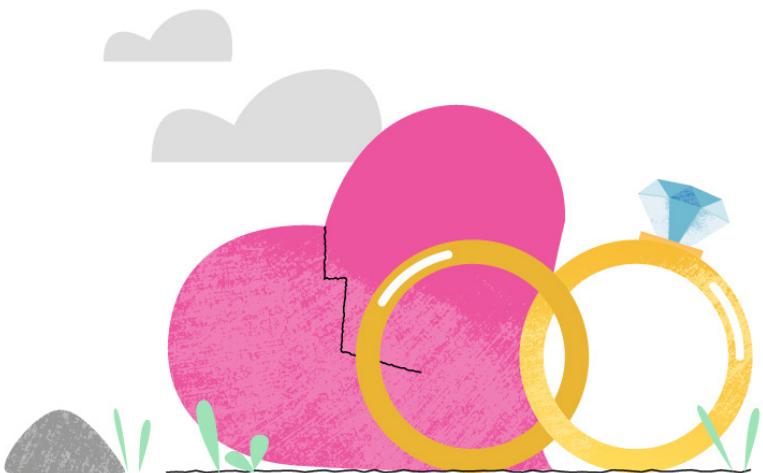
While [marital status is not reflected in your credit reports or scores](#), the credit activity of one spouse can have consequences for both, even if it occurred before the marriage. When married couples apply jointly for a mortgage, car loan or other credit, as they must if they want two incomes taken into consideration, both parties' credit histories are also taken into account. If one has a low credit score or a spotty history, that could translate to a higher interest rate, or even difficulty securing a loan at all. And when a couple has joint credit, both parties' credit reports and credit scores are affected by payment activity (or lack of it) on those accounts: If one spouse maxes out a joint credit card, for instance, it hurts both spouses' credit scores.

As a prelude to marriage, it's a good idea for couples to have a frank discussion of their credit histories—and even share their credit reports with one another—to avoid surprises, and perhaps to start a conversation about avoiding the repetition of past financial missteps after tying the knot. Keep in mind that marriage does not combine a couple's credit reports; both spouses will continue to have their own individual reports once they are married.

When a couple that has joint debts decides to split up, [it's critical for both parties to make sure bills continue to be paid](#) as agreed during and after divorce proceedings. (Even if a judge orders one

spouse to pay a joint loan, failure to do so will hurt both parties' credit histories as long as the loan remains in both names.)

If possible, it's often wise for divorcing couples to refinance joint loans as individual debts. It's also crucial, especially after long marriages end, for both parties to begin building up their individual credit profiles. (Maintaining credit cards and other loans in one's own name during the marriage can make this process easier.) But because divorced individuals typically come to the loan application process with less income than they could declare as part of a couple, securing new loans may be difficult soon after divorce.





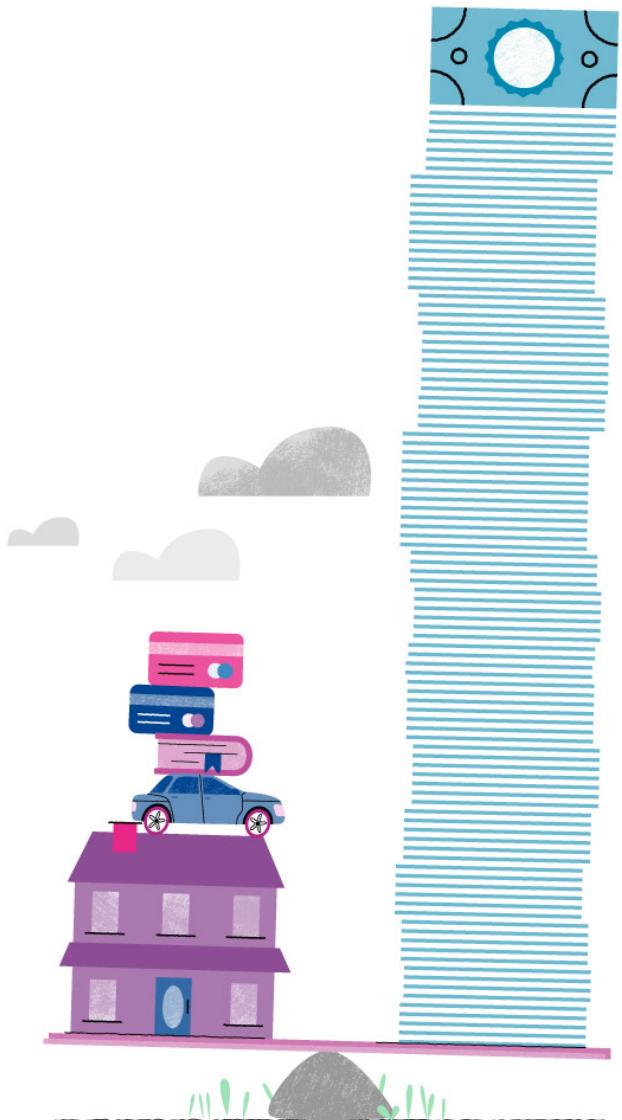
# How retirement can influence your credit

As retirement approaches, individuals' debt levels often taper off—mortgages may be paid off, cars may get replaced less frequently and credit cards may be used less often. A lack of credit activity over many months can cause an account to be dropped from score calculations, possibly hurting credit scores. It may also cause a credit card issuer to close your account, which could cause your credit score to decrease to less available credit.

Retirement can also affect your ability to get loans since lenders often look for steady income when considering applications. Because retirement often brings a reduction in income, it may affect your ability to qualify for certain types of loans. The significance of a smaller income is its role in increasing your debt-to-income ratio (DTI). Lenders often consider DTI, which you can calculate by dividing your monthly bill payments by your monthly income—along with credit score, employment history and other assets you may have—when deciding whether to lend you money.

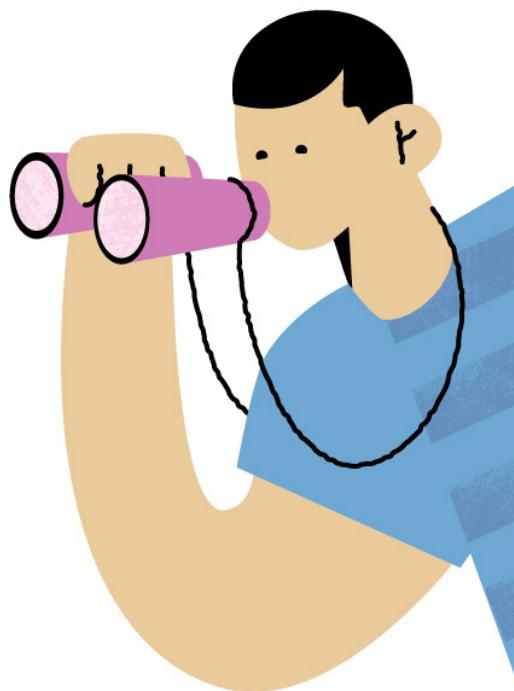
A drop in income will typically mean an increase in DTI. Lenders typically look for DTI ratios below 43% when considering loan applications, though some may require lower ratios.

No matter what your financial picture may be, you can take control of your credit behaviors and manage them successfully through all of life's ups and downs.





**Carrying credit card  
balances each month helps  
improve your credit score.**



## TRUTH:

**Paying off your card balances in full as quickly as you can will save you money, and could benefit your credit score.**



"No pain, no gain" may be a truism for gym workouts and marathon training, but it's misapplied when it comes to building credit scores.

Carrying an outstanding credit card balance typically induces financial pain, in the form of interest charges that get tacked onto your balance (which can accumulate quickly over time, depending on the size of that balance). That discomfort yields absolutely no benefit for your credit scores.

In fact, if your outstanding balance exceeds about 30% of the spending limit on your card, or if the total amount you have outstanding on all your cards exceeds about 30% of the sum of all the cards' spending limits, your score could fall sharply. If you're carrying a balance because you can't or choose not to pay off a purchase right away, try to keep your balance under 10% of your credit limit.

Part of the convenience of credit cards is the flexibility to take more than one month to pay off purchases, so it may not be possible to pay every card balance in full each month. But never forget that you're paying for that convenience in interest charges. And while you may not be hurting your credit score by doing so, don't make the mistake of thinking you're helping it.



# Control your credit

## 6 ways to take control of your credit

Once you understand the factors that influence your credit scores, your choices can help [improve your credit scores](#). Aim to do the following:

01

### Pay all your bills on time, every time.

Positive payment history is the top factor many credit scoring models use to determine credit scores.

### Pay down your credit card debt.

This will help improve your credit utilization ratio, and the lower you can get it, the better. People with the highest scores keep utilization levels under 10%.

Note that paying off your balance in full each month does not negate the impact of utilization. If you have a \$5,000 credit limit and run up \$1,000 in credit card charges every month, you may show a 20% utilization ratio even if you pay off those charges in full every month. The credit utilization ratio on your individual cards plays a role too. You can be strategic about this by making larger payments on cards that are near their spending limits.

02



03

### Get credit for timely utility and cellphone payments.

[Experian Boost®](#), a free feature, could help you improve your FICO® Score based on your Experian credit report by factoring in your history of utility, cellphone, eligible rent and streaming service payments. To enroll, you connect your bank accounts so Boost can identify qualifying payments and add them to your Experian credit file. Once that's done, an updated FICO® Score will be delivered immediately.

## 6 ways to take control of your credit (continued)

### Keep unused credit cards open.

Keeping unused credit cards open—as long as they’re not costing you a lot of money in annual fees—is a smart strategy, because closing an account may increase your credit utilization ratio. If you have an outstanding balance on any credit card, closing an unused card account will increase your utilization. Also, keeping an account active by using your card to make small purchases regularly and pay them off right away can help scores.

04

05

### Check for fraud or inaccuracies on your credit reports.

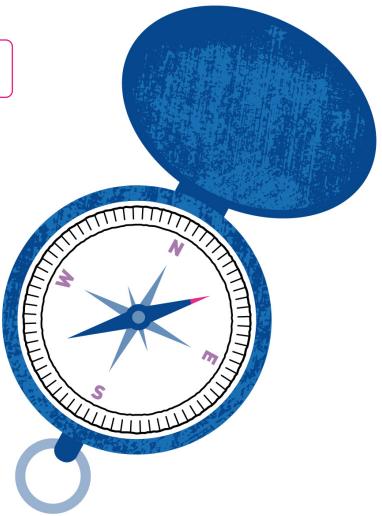
Incorrect information or fraudulent accounts appearing on your credit reports can drag down your credit scores. You have the right to check your credit reports at all three credit reporting bureaus (Experian, TransUnion and Equifax) for any inaccuracies. Verify that accounts listed on your reports are correct. If you see something you believe to be an error, [submit a dispute to have the information corrected](#) right away.

### Apply for new credit only when you really need it.

This can help you prevent or at least minimize the slight credit score ding that sometimes accompanies a hard inquiry.

Understanding that borrowers tend to shop around for the best credit terms they can get, leading credit scoring models treat multiple credit applications placed within a short time (14 to 45 days for FICO®) as a single event. So if you’re seeking a car loan or mortgage, for example, it’s a good idea to apply to multiple lenders in an effort to get the lowest interest rate you qualify for. Your credit score will likely take a temporary hit, but won’t be any worse than if you’d applied to just one lender—and you’ll likely have more than one interest rate or fee structure to choose from.

06



# Check your credit report regularly

It is a good idea to review your credit report from each of the credit bureaus at least once a year, if not more frequently. Set a calendar reminder to obtain your reports on a regular basis. It's also wise to check your credit report at least three to six months before you plan to seek a large loan, such as a mortgage, auto loan or private student loan. This can help prevent unpleasant surprises when it's time to apply and give you some lead time to correct any errors. **Free credit monitoring** from Experian can help you spot credit issues early on and address them quickly. And remember: Checking your own credit report will never hurt your scores.

You can [get your free credit report](#) directly from Experian. In addition, you can get one report every 12 months for free from each of the three national credit bureaus if you visit [AnnualCreditReport.com](#)—though through April 2022, you can receive a free report once a week.

You can also get a free report if you've recently been turned down for credit, employment or insurance for credit-related reasons. The company that turned you down should provide contact information of the credit bureau that supplied them your credit file. You can then contact that bureau within 60 days to obtain your free credit report.



**Make sure your personal information is accurate.** Missing employer information from a previous job, for example, isn't a big deal, but an address you don't recognize could be a sign of [identity theft](#) and should be addressed.

**Be sure you recognize all the accounts listed on your report.** If you see any unfamiliar loan or credit card accounts, get in touch with the lender immediately to find out what is happening with the account. Unauthorized accounts in your name could also be the result of fraud. Keep in mind that some accounts, such as a retail credit card account, may be listed on your credit report under the name of the financial institution that owns the account.

**Make sure your credit accounts show the correct amount owed and status.** Bear in mind that your most recent payments may not yet be reflected in your credit file. Check for closed accounts that are still listed as open, inaccurate balances and payments incorrectly marked as late. Such errors are rare, but if you see one, you should initiate a dispute [through the credit bureaus](#).



# The right way to track your credit score

Once you're confident your credit reports are in order, you can begin tracking the effects your smart credit behaviors have on your credit scores.

You can get your FICO® Score 8 and additional scores lenders commonly use to assess your creditworthiness directly from Experian.

VantageScore credit scores are available for free through several banks, credit card providers and personal finance companies.

The various credit scoring models all consider your credit factors at least slightly differently, and none of them are guaranteed to be identical to the score a lender will see when it considers your application for credit. But all of these scores will tend to increase as you adopt the smart credit behaviors outlined above, so you can use any or all of them to mark your progress as you work toward better credit scores. Here are some guidelines for doing so:

- Be consistent about using the same score for comparison purposes month to month. You can't meaningfully compare last month's FICO® Score to this month's VantageScore, for instance.
- Don't worry if your score fluctuates from time to time. This is normal and is usually the result of changing account balances, applications for new credit or outdated information being removed.
- Keep your eye on long-term trends. Don't obsess over your credit score by checking it several times a week. Many score-reporting tools only update once a month, and checking more frequently than that isn't necessarily productive. Instead, focus on sticking to good credit habits. Once you've made them second-nature, your credit score should rise in time.

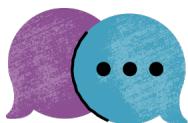




# What to do if your score is low

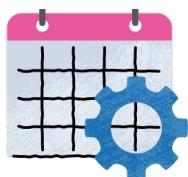
If you're working to build on a poor credit score (for example, a FICO® Score of 579 or lower), there's a good chance your credit report contains some serious negative entries, such as a foreclosure, bankruptcies or collections. You may also be swamped in debt and unable to make all your monthly payments.

If that sounds familiar, don't lose hope. You have options that can help you get your credit score moving in the right direction:



## Consult a **certified credit counselor**

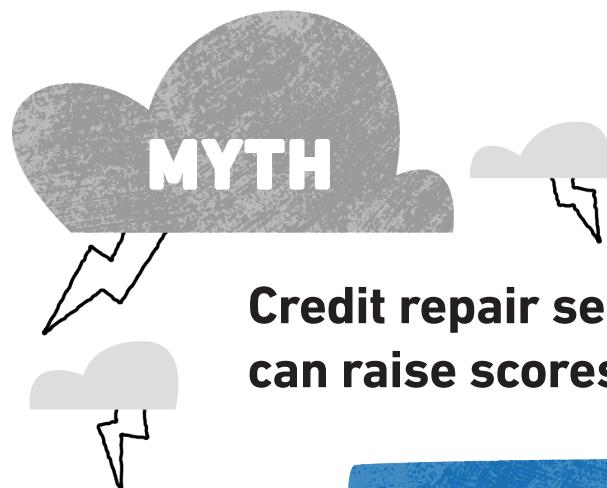
Consider meeting with a credit counselor at a nonprofit certified credit counseling agency. Counselors are trained to help people in your situation, and can help you work out a game plan for improving your credit.



## Consider a **debt management plan (DMP)**

If you're having trouble repaying your loans and credit cards, a debt management plan could bring some relief. This process involves working with a nonprofit credit counseling agency to devise a manageable repayment schedule that will hopefully enable you to get your finances in order. A DMP can indirectly lower your credit scores, but they can rebound from it more quickly than they would from a possible alternative—bankruptcy.

No matter your starting point, taking control of your credit habits can bring steady credit score improvements. If your score is already good, you may be able to make it great in the space of several months. If your score is very low, the trek to an outstanding score may take some time. In the next chapter, we'll look at why the effort is worth it either way.



**Credit repair services  
can raise scores quickly.**



### **There are no quick fixes for credit scores.**



When people feel the need to turn things around in terms of their credit, they often want immediate results. But while recovery is on the table no matter your credit score, the process requires patience as well as discipline. When building up credit scores, you'll need to think about the changes you can make over the course of months or even years if bankruptcy and foreclosure is in your credit history.

But there are no quick solutions. If a "credit repair" organization offers to help you "fix" your credit for a fee, be very careful.

So-called credit repair companies typically charge fees you could put to better use paying your debts, and they often advise you to stop paying your bills and instead put money in an account they control (and charge you to maintain). This fund essentially provides money the repair company will offer your creditors as settlement for your debts—but creditors are under no obligation to accept such settlements, and your credit can be severely damaged if you stop making payments on your debts. Even if all payments are made on time, a settled account is considered negative because the full debt amount was not paid as agreed. Credit repair companies can't do anything for you that you can't do yourself for free.

If you feel like you need assistance navigating the credit-rebuilding process, steer clear of credit repair companies, and instead look for a nonprofit certified credit counselor. The National Foundation for Credit Counseling can help you find assistance in your area. Credit counselors can help you work out a credit-rebuilding plan that works for you—without further depleting your bank account.



# Improve your credit score

## 7 awesome benefits of a great credit score

Let's say all of your hard work, discipline and patience pays off. Having a FICO® Score high in the very good range (upper 700s) or exceptional range (800 or higher) can help you save money over time and make you more likely to qualify for the credit you want when you need it. Benefits include:

### **Access to a wide range of loan products**

**01**

With higher credit scores, you'll be able to access enticing credit card offers and will have plenty of options when you apply for mortgages or car loans.

### **Higher borrowing limits**

Achieving an outstanding credit score (and adopting the healthy credit habits that underpin it) tells lenders you're a reliable user of credit. You can expect new credit card offers to include generous spending limits, and you should also feel comfortable asking the lenders you already work with to increase your limits as necessary. Doing so makes larger purchases possible, of course, but it can also reduce your utilization, helping your credit scores even more—as long as you continue to maintain low balances.

**02**

### **Lower interest rates**

**03**

If you have an outstanding credit score, you're more likely to qualify for the lowest interest rates and best terms lenders offer, which can mean big savings. For example, just 1 or 2 percentage points less on your mortgage interest rate could save you tens of thousands of dollars over the course of the loan.

## 7 awesome benefits of a great credit score (continued)

### The most rewarding credit cards

Excellent credit will help you qualify for credit cards with low interest rates and other rewards including cash back offers, travel points and other types of incentives.

04

05

### Insurance discounts

Car insurance companies in many states factor in credit scores when determining monthly premiums. You generally can't be denied insurance based on solely credit scores, but good credit scores can help you qualify for lower insurance premiums.

06

### More housing options

Landlords may use credit scores to screen tenants and gauge their financial risk. A good credit score can increase your chances of getting into a house or apartment and spare you from having to pay a higher security deposit.

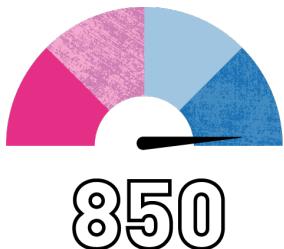
07

### Reduced security deposits on utilities

If you are a new customer, utility companies may look at your credit report to get a sense of how likely you are to pay your utility bills on time. Having a good payment history and good credit scores will reduce the chances they'll charge you a security deposit when you establish utility service.



# How to get a top credit score



Once you get a feel for boosting your credit score, you may find yourself drawn to the idea of achieving the ultimate FICO® Score, a “perfect” 850. It can be done, but before you embark on that quest, you should know there’s not much practical advantage to doing that: If you consistently maintain a FICO® Score of 800 or greater, lenders will view your credit as excellent, and you’ll be able to take full advantage of the seven benefits mentioned on the previous two pages.

- **Minimize outstanding balances.** While experts agree that keeping your revolving credit account balances well below 30% of your total borrowing limit can help your credit, the lower, the better. Those with exceptional credit scores typically keep balances below 10% of their overall spending limits, and most pay their credit account balances in full every month.
- **Send payments before they’re due.** The 30-day grace period for payments on most credit cards means you pay no interest charges as long as you pay the full amount that appears on your account statement each month. That said, you can pay off outstanding balances before they even appear on your statements, and this can help your score. Just ask your card issuers (or check the fine print in your cardholder agreements) to find the monthly statement closing date for each card and plan on making payment in full by that date. Doing so gives you the benefit of activity on the card, but prevents even a temporary debt from being noted on your credit report.

- **Keep all your credit card accounts active.** All other factors being equal, credit scoring models respond more favorably to active credit card accounts—those that are in use—than to identical accounts that lie dormant. This factor doesn’t play a big enough role in scores for most credit users to worry about, but it can be a difference-maker on the edges.
- **Set up automatic payments.** A great way to maintain activity without running up balances or interest charges is to make small, fixed monthly payments with otherwise unused cards. These payments may be for your gym memberships, video-streaming accounts and cable subscriptions. Many people pay these bills using automatic payments from their checking accounts, and the trick is just to add a step: Designate an unused card as the payment source for one of those fees, and then set up an automatic checking payment through your bank account to pay the credit card bill.

It won’t happen overnight, but with improved credit habits and some strategic adjustments to your outstanding balances and utilization rate, you can begin to see steady score improvements within just a few months. With perseverance and patience, an excellent FICO® Score can be yours. Enjoy the journey.



**Closing unused credit card accounts boosts your credit score.**



## **TRUTH:**

**Eliminating an account reduces your total borrowing limit and could therefore increase your total credit utilization ratio—which could lower your credit score.**



If you use one of your credit cards less frequently than the others, you may wonder if you should close the account. Keeping the account open—and using the card for a small purchase (like a subscription) you pay off each month—can help your scores. So unless you're paying annual fees on cards you're not using, there's not usually a compelling need, or benefit, to close them.

If you still want to close dormant accounts, just know that doing so could reduce your total borrowing limit while increasing your credit utilization ratio (the percentage of available credit that you have used). If you use more than 30% of your available credit, you could experience a significant drop in your scores.

You may be able to close accounts with low borrowing limits without jeopardizing your credit score. But generally, it's best not to close any cards prior to applying for a large loan, such as a mortgage, since your scores could be affected.

### **A myth inside a myth**

It's widely and incorrectly believed that closing your oldest credit accounts can hurt your credit score by erasing part of your credit history. That just isn't so. Like paid-off car loans and mortgages, credit card accounts closed in good standing stay on your credit report for 10 years after they're closed, and the age of those accounts continues to benefit your credit score.



# Takeaways

Personal credit can help you reach your dreams, whether that's an education, a home, a car or even just the simple purchases that make life safer or a little more comfortable.

If you follow the guidelines in this credit field guide and stick to its rules of the road, your journey will be more enjoyable, and you'll make steady progress toward excellent credit.

### Here are our top 4 tips to keep in mind:

**01**

#### **Pay your bills on time faithfully, every month.**

Use autopay, sticky notes, phone reminders or whatever else it takes. Making this a lifelong habit will do more to help your credit profile than any other action you can take.

**02**

#### **Establish credit as early in your life as you can.**

Consider becoming an authorized user on a credit card that belongs to a parent or loved one, getting a cosigner to vouch for you on a loan, or putting down a deposit to obtain a secured credit card. Your credit score will tend to increase over time as you gain borrowing experience, and starting early gives you a head start.

**03**

#### **Watch your outstanding balances.**

Keep your credit card balances as low as possible. Ideally, pay them off every month and never let them exceed 30% of your credit limit.

**04**

#### **Check credit reports and credit scores regularly—but not obsessively.**

Request credit reports from the three major credit bureaus at least once each year to ensure accuracy and check for unauthorized activity in your name. Checking your FICO® Score or other credit score monthly is a good way to track the progress of your credit behaviors—as long as you remember to look at the numbers over the long haul and don't panic about occasional dips.

If you keep these tips in mind, improved credit scores and the opportunities they open up may be right around the corner.

# Enjoy the adventure!

