Module 3 Article

How Do Credit Scores Work?

Key Terms

- **APR**: Annualized Percentage Rate, typically used with credit cards, highlights the annualized interest rate that is charged on your monthly outstanding balance.
- **Prime Rate**: This is the rate that banks lend money to each other.
- **Credit Repair**: This is a practice in which past credit reports are removed by a credit repair company in return for payments.

Extra Credit

A credit score is a three-digit number anywhere from 300 to 850 that represents the likelihood that you will pay your bills on time. Creditors and lenders such as banks, credit card companies, and car dealerships will look at your credit score before deciding your credit terms.

The higher your credit score the better. If you manage your bills and pay off your loans in a timely manner, your credit score will be higher. Institutions and lenders will have more trust in your ability to pay off loans and therefore you will be subject to lower interest rates.

Poor Credit - Less Than 580
Fair Credit - 580 to 669
Good Credit - 670 to 739
Very Good Credit - 740 to 799
Excellent Credit - Greater Than 800

Debt Accumulation

The more you use your credit card, the faster you can accumulate debt. If you're not careful about using your credit card you can easily be put into a position where you can't pay off debt, and this lowers your credit score significantly.

Once you have a low credit score your interest rates will increase and you will fall into a debt loop.

Frequently checking your credit score can raise concerns for lenders and in turn lower your credit score. Credit card users should strive to have 50% of their income for needs, 20% for wants, and 30% for savings.

The Bottom Line

Your credit score is impacted by your responsibility in paying credit card bills and keeping up with loans. A high credit score can get you lower interest rates on all types of loans, while a low credit score may prevent you from getting any loans.