

Credit scores decoded: What really matters

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Key takeaways

- 1 A higher credit score can unlock lower interest rates on loans, potentially saving you tens of thousands of dollars over a lifetime of borrowing.
- 2 Your history of on-time payments and the amount of credit you're using are the most important factors in your credit score.
- 3 If you find an error on your credit report, you can appeal it with the lender as well as the credit reporting agencies.

Just as a report card measures your performance on subjects like history and science, your credit report shows how well you manage your money. Lenders, like mortgage underwriters and credit card issuers, use the score to determine how much money they can give you—and at what rate.

The better the credit score, the better the rate a lender will offer you. Over time, having a good credit score can save you money and get you access to better rental apartments or valuable rewards credit cards.

The credit rating agencies give you a score (typically a three-digit number between 300 and 850), based on data in your [credit report](#), which summarizes your credit history and borrowing information. You can (and should) request your credit reports from the three largest agencies, [Equifax](#), [Experian](#), and [Transunion](#) for free once per year via the website [annualcreditreport.com](#).

While each of the agencies has a different formula for calculating scores, there are several factors that almost always impact your score:

1. **Payment record.** Your history of making on-time payments consistently is one of the most important factors that goes into your credit score, since it demonstrates to lenders whether they can rely on you to pay back a loan on the agreed upon terms.
2. **Credit-utilization ratio.** This is the amount of credit that you use versus the amount of credit you have available across all your accounts. Most lenders prefer that you use less than 30% of your available credit, but the lower you can keep this ratio, the better.
3. **Age of accounts.** Lenders look at the length of your credit history (how long you've had your oldest account) as an indication that you have a longer track record of managing your credit.
4. **Recent credit inquiries.** When you apply for a new line of credit, lenders typically conduct a "hard inquiry," requesting your credit report to help them decide whether to issue the loan. A lot of recent inquiries may indicate to some lenders that you're relying too much on credit to manage your money.
5. **Your credit mix.** This measures how many different types of credit you use. They generally want to see that you use both installment loans (debt with a fixed payment each month, such as a mortgage or auto loan) and revolving loans (typically credit card debt where the payment fluctuates each month).
6. **Mistakes.** In one recent study, 44% of people who checked their credit report found an error.1 If your report incorrectly states that you missed a payment or includes a loan that's not yours, your credit score may appear erroneously low and may indicate you've been a victim of identity theft.

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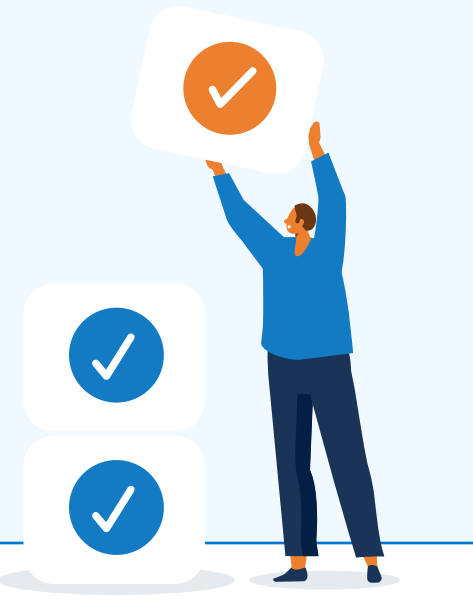
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Here are some tips to stay on top of your credit score and increase it over time:

- Set up calendar reminders or automatic payments for at least the minimum amount on all your loans so that you never miss a payment.
- Aim to pay off your credit cards in full every month to lower your credit-utilization ratio. If you have a good payment history, you can also call your card issuer and ask them to increase your limit.
- Keep older cards open (as long as there is no annual fee) to increase the age of accounts and decrease your credit-utilization ratio.
- Minimize credit inquiries by sticking with one or two credit cards and only applying for loans when necessary. Lenders recognize that you may shop around for auto loans or mortgages, so multiple inquiries within a few weeks for the same type of credit have less of an impact on your score.
- Maintain both installment and revolving loans, with a focus on paying on time and keeping the balance as low as possible on revolving loans.
- Contact your lender if something doesn't look right on your credit report. Each of the credit bureaus also has an online dispute portal that you can use to let them know of mistakes.

What you can do next

- Request your credit reports, for free, at [annualcreditreport.com](#), to check for errors and look for any problem areas. Maintaining good credit is a sign of good financial health and an important step toward maintaining financial security.
- If you're preparing to apply for a large loan, such as a mortgage, avoid taking on any other new loans and prioritize paying down existing credit card debt.
- If you're struggling to figure out how your debt payments fit into your overall financial picture, get in touch with a [financial professional](#) who can help.



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Prudential Staff

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Beth Braverman

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Discover key factors impacting your credit score. Learn payment history, credit utilization & proven tips to improve your score and save on loans.



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