



Credit Scores: What They Are and How to Improve Yours

Chances are you've been asked about your credit score at some point. Maybe it was to buy a car, applying for a credit card or even a background check at your new job.

How familiar are you with your credit score... or credit scores in general? You can help yourself by being informed about what your score is and what you need to do to keep improving it.

Background

That three digit number can have a huge impact on your life. It's used by lenders to determine your creditworthiness, interest levels and it can influence whether or not you get your new car or place to live.

You may have heard your credit score also referred to as your [FICO](#) score. In 1956, engineer Bill Fair and mathematician Earl Isaac pioneered the credit score company called Fair, Isaac and Company. This was renamed Fair Isaac Corporation in 2003 and later called FICO in 2009. The website describes itself as an "analytics software company, helping businesses in 80+ countries make better decisions that drive higher levels of growth, profitability and customer satisfaction."

FICO scores are available through 3 major reporting agencies: [Equifax](#), [TransUnion](#) and [Experian](#).

How It Works

You might have already heard you have three different scores thanks to the different reporting agencies. These agencies are not collaborative – they're competitive. They don't share information with each other.

Financial institutions may report to one or two, but not all of them. Same goes for collections agencies. If they do report to all three, they may do so at different times. This is how you can have three different scores.

Several factors go into calculating your credit score including:

- Payment history – Late payments and any bills that get sent to a collections agency stay on your record for a long time.

- Debt-to-credit ratio – If all your credit cards are almost maxed out, that’s a big red flag.
- Length of history – Younger people will need to build their credit history before seeing high scores.
- New credit – What you recently obtained will be included.
- Types of credit – Retail cards, auto loans, credit cards, mortgages and leases will all be looked at.

All of these factors are used in an algorithm that provides your three-digit score.

How to Improve Your Score

There’s no quick fix if you have a low score, but there’s plenty you can do for long-term gain.

1. Pay your bills on time. Since payment history is a big factor, make sure you have a clean history. Automatic payments and digital calendar reminders can help make this easier for you, as well as Bill Payer services ([Aspire offers this option](#)).
2. Keep balances low. Ideally, you’ll pay off your credit card every month. That rarely happens, so aim to keep the majority of your credit available.
3. Keep new accounts to a minimum. Opening multiple loans or credit cards at once can indicate you’re in trouble... or soon will be.
4. Verify accuracy on your credit reports. You are entitled to one free report each year, so check it out. See your report and address any discrepancies at <http://www.annualcreditreport.com>.
5. Get a [credit builder loan](#) or secured card. These function basically the same way. A cash deposit is used as collateral and payments are made to build good credit history.
6. Get authorized on someone else’s account. You can benefit from a family member’s good credit if they sign you to one of their credit or retail cards.
7. Don’t close accounts, especially ones with long history! If you need to stop spending, there are plenty of things you can do – cut up your card, freeze it, give it to a loved one, etc. Closing an account with history eliminates a chunk of your available credit and can hurt your score.
8. Pay your highest debt first. The higher your balance, the more interest you will be paying.
9. Protect your personal information. Identity theft or fraudulent use of your money may be reversible, but it can take some time to resolve. Fortunately, there are [many resources available](#) to help keep you safe.
10. Add a note to your credit report. If you feel your credit report doesn’t tell the full story, you do have the ability to add a note to explain certain things.

Helpful To-Do: Make a Budget

You’ll notice that most of the advice on earning and maintaining a good credit score involves proper money management. Creating (and sticking to) a budget is the easiest way to manage your finances.

Look at where your money goes every month and allocate accordingly. Don't forget to include money for entertainment, take out and other splurges. They're bound to happen, so it helps to decide how much you can and will spend on those splurges each month.

Helpful To-Do: Refinance

You may be able to reduce the amount you owe on your home or vehicle by refinancing your loan. Not only can this reduce the amount you owe, you may also have lower payments each month.

[Click here](#) to refinance your loan with Aspire.

FAQs

How often does my credit score change? Whenever you have new information, your score will be updated.

What is a good credit score? A score below 640 is considered poor, 640 to 720 is fair and above 720 is good. 850 is a perfect score.

What is the Fair Credit Reporting Act? Federal law: must be told if info in your Credit Report has been used against you, know what is in your Credit Report, dispute incomplete or inaccurate info