



How Credit Scores Work

What is a credit score?

A credit score is a number that is used to represent how good you are at handling credit. This number is based on the information compiled from your credit reports.

The higher the better

In the eyes of loaners and creditors, a high credit score is a sign that you are able to repay your debts as agreed and in a timely manner. This means that you may be able to pay lower interest rates, or take out loans you wouldn't be able to otherwise.

How to improve your FICO Credit Score

Two of the major credit score providers are FICO and VantageScore.

The following is a breakdown of the factors FICO uses to create their credit scores, and what you can do to improve it.

FICO Score Factors & How To Improve Them

Factors (Most Important to Least)	Definition	Actions
Payment History	The history of payments made to current and previous creditors. Specifically whether the payments were on time and the agreed amount.	<ul style="list-style-type: none"> • Try to pay all your debts on time. • If possible, pay more than the minimum amount on credit card payments.
Amounts Owed	Your current outstanding debts. For credit specifically, this tracks the amount of credit you use on an account, versus the amount of total credit you're allowed.	<ul style="list-style-type: none"> • Keep your Credit Utilization Rate under %30. For example, if you have \$1000 in Credit, only try spending up to \$300 of it at a time. • Limit the amount of outstanding debts you have at any given time.
Length of Credit History	The age of all your credit accounts and debts, including your total credit age which is from your oldest existing account to now.	<ul style="list-style-type: none"> • Avoid closing out old credit accounts. • Make sure that older information is accurate.
Credit Mix	The unique types of credit and debt that you have.	<ul style="list-style-type: none"> • If you're in a position to do so, see if your local bank has any credit-building loans you can take.
New Credit	More recently opened credit accounts and debts.	<ul style="list-style-type: none"> • Avoid opening too many lines of credit at once. • Let new accounts age.

FICO Scoring Breakdown

Below is a general breakdown provided by FICO that shows what each score range represents.

800-850 Exceptional	Most likely to have the lowest interest rates and overall best loan terms.
740-799 Very Good	Usually get better rates and deals than with a "Good" credit score.
670-739 Good	Access to most loan offers available.
580-669 Fair	Better access to loan offers, but interest rates may still be high.
300-579 Poor	Unlikely to be accepted for most loans. Will probably have to take loans out at a higher rate.

Building Credit Takes Time

Even if you follow the steps outlined above, your credit score does not improve overnight. Rather, it usually takes time and a consistent effort to watch your spending and credit mix in order for it to grow. However, if you stick to it, you should start seeing good positive growth after a year or so.

A Good Credit Score isn't Everything

While a good credit score offers many opportunities for loans, it is not the ultimate indicator of one's financial health. At the end of the day, credit scores are a quick way for lenders to determine the risk factor of lending someone money. Just because you have a bad credit score, it does not mean that you're bad with money or that you're out of luck for improving your financial situation.

Conversely, having a good credit score does not necessarily mean a person is good with money, or is well off. So, while it is important to improve your credit score, your own well being and health should always come first.

To get further involved with our Financial Literacy program, such as one-on-one financial counseling, Orcas Talks Money drop in workshops, or our 7-month Orcas Money Smart cohort, reach out to the Orcas Community Resource Center at 360-376-3184 or info@orcascrc.org for more information!