

# Credit Scores -

PROVIDED BY ROCHELLE L. MOORE, CFP®, CDFA®, CPA/PFS

## WHY THEY MATTER AND HOW TO IMPROVE YOURS



A credit score is a numerical representation of your creditworthiness or financial reputation. Scores range from a low of 300 to as high as 850. Your score reflects how reliably you have managed your financial obligations in the past. Lenders use this to assess their risk of lending to you in the future.

### Why Do Credit Scores Matter?

Having a good credit score can help you obtain better terms on loans, credit cards, insurance and more. Over a lifetime, this can add up to significant financial savings. Lower scores may lead to missing out on or paying more to obtain those same things.

### Access to a Loan or Credit

A good credit score increases your chances of being approved for credit cards, vehicle or personal loans and mortgages. Lenders view a high score as an indicator of low risk, making them more likely to extend credit to you.

### Larger Loan and Credit Card Limits

With a good credit score, you will likely qualify for larger loan amounts when applying for a mortgage or vehicle loan. You may also benefit from higher spending limits on credit cards.

### Lower Interest Rates

A major benefit of good credit is getting lower interest rates on loans. When applying for a loan or credit card, the lender or credit provider typically runs your credit history to determine what interest rate to charge. The higher your score, the lower your interest rate. This means paying less to borrow those funds. Applicants with a lower credit score reflect a higher risk to the lender, so they will charge a higher interest rate to cover expenses in case a borrower defaults. This higher rate may mean significantly more interest paid over the life of the loan, especially on larger purchases.

### Housing

Landlords may run a credit check when evaluating a potential tenant's rental application. A strong credit history may improve your chance of being approved for your preferred property. Those with a poor credit history may be required to put down a higher security deposit before moving in, pay first and last month's rent in advance, agree to a shorter-term lease or even be denied completely.

### Lower Insurance Rates

Insurance companies look at your credit history and assign a risk score when deciding whether to extend coverage and what premiums to charge. Poor credit habits may lead to higher costs for insurers which they will offset by charging higher premiums.

### Employment

Some employers, especially those in the financial services industry or those that require security clearance, may review your credit history for delinquent payments, bankruptcy filings and more during the interview process. Good credit scores may have a positive reflection on your financial responsibility and integrity.



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## Utility Services

Utility providers and mobile phone companies may check your credit score before turning on services. With a good credit score, providers are likely to offer service with minimal trouble. Previously missed payments may lower your credit score, which could result in higher deposits, denial of service or needing a co-signer.

## Banking

Depending on the bank, even simply opening a checking account might lead to a credit check. The bank may be looking for information on your history of frequent overdrafts or having accounts closed by other institutions.

## How to Improve Your Credit Score

First you should know what factors impact your credit score. There are five main factors: payment history, credit utilization, length of credit history, credit mix, and new credit inquiries.

Your payment history is the most significant factor accounting for 35% of your credit score. You can develop or improve a strong credit history by consistently making your payments on time and in full. Begin establishing a good credit history by getting a credit card and using it for small expenses, then pay it off each month.

Next, your credit utilization represents 30% of your score. This measures what percentage of your available credit you are using. Maintain a low credit utilization rate on revolving accounts, like credit card accounts, by keeping balances under 30% of the credit limit. The lower the ratio, the better because when the utilization ratio goes down, credit scores go up. Once you have established a good credit history or your income has increased, you can request an increase to your credit limit. This will immediately decrease your utilization ratio.

The length of your credit history reflects 15% of your score. This indicates how long you have managed your credit. Older accounts, especially when held in good standing, demonstrate lower risk to lenders. Maintaining older accounts, even if not actively used, is a simple way to maintain a healthy credit history. Closing an old account will reduce the average age of your credit history and also increase your credit utilization ratio, which may decrease your credit score.

Finally, credit mix and recent credit inquiries each represent 10% of your score. Maintaining a mix of different types of credit accounts, including credit cards, retail accounts, installment loans, and mortgage loans, can help to increase your credit score. However, avoid opening multiple credit accounts over a short period of time. Frequent inquiries can quickly lower your credit score. Ideally wait six to twelve months in between new credit applications.

Be sure to check your credit report regularly for any errors that may negatively impact your credit score and promptly dispute any errors. Consumers are encouraged to visit AnnualCreditReport.com. Here you can request a copy of your credit report from each of the three major credit bureaus - Experian, Equifax, and TransUnion, once each year at no charge.

We are happy to answer your financial questions, to walk through the financial and non-financial decisions surrounding your stage of life and help you to achieve the goals you may have. Give us a call at (217) 441-2200 or visit us online and check out the free resources available at [www.MySoundPlan.com](http://www.MySoundPlan.com).

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