



Credit Scores

From the Office of Minnesota Attorney General Keith Ellison

Your credit score is a measure of your credit worthiness, or how likely you are to make timely payments and repay a loan. Credit card companies, auto lenders, mortgage lenders, insurance companies, utility companies and landlords may use your credit score to determine whether they will offer you credit, a loan, or even an apartment. Your credit score may also affect how much you will have to pay in upfront fees and interest.

Generally, the higher your score, the more likely you are to receive a larger offer of credit or loan and the less you will have to pay for it. A higher score also may make you more likely to be able to lease an apartment. Having a lower score may mean that you have to make a larger down payment or pay more in interest over the life of a loan.

Credit scores typically range from 300-850 and may be calculated with several categories in mind, such as: (1) your payment history, (2) how much you owe your creditors, (3) the length of your credit history, (4) the number of accounts you opened recently and recent inquiries on your report, and (5) the type of credit you use. This information—both positive and negative—is gathered from your credit report and compared to other borrowers with similar credit profiles.

Your payment history includes how often you pay your bills on time and any unpaid bills that have been sent to collections. If you regularly pay on time, your credit score should increase, and lenders may be more willing to offer you credit at a lower rate.

How much you owe your creditors is compared with the total credit available to you or the total loan amount you borrowed. Maxing out your credit cards every month will usually lower your credit score.

The length of your credit history includes how long you have had an account and how long since you have had any activity on an account. Having fewer and older accounts that are clear of late payments or collections will improve your credit score.

The number of accounts you opened recently is compared to the total accounts you have open. Applying for lots of credit at once may signal to lenders that you are in financial trouble. Similarly, **recent inquiries on your report** reflect those made by lenders to whom you applied for credit. Lenders that send pre-screened offers may also access your credit report, but those inquiries generally do not affect your credit score.

The type of credit you use—and its variety—is important to demonstrating your reliability as a borrower. For example, the scoring agencies deem a long-term installment loan, like a mortgage, as evidence that you can handle a large amount of debt, and use revolving debt, like credit cards, to predict your future payment patterns.

Federal laws prohibit credit scoring models from including factors such as race, sex, marital status, national origin, or religion. The law allows age to be considered, but a credit scoring model that includes age must give equal treatment to elderly consumers.

Types of Credit Scores

Large lenders, credit card issuers, and the three major credit bureaus—Equifax, Experian, and TransUnion—typically develop their own, proprietary credit scoring models ranging up to a score of 990. This means that your credit score may vary depending on how the entity calculates its scores.

Get Your Credit Score

Federal law allows consumers to receive a free credit *report* from each of the three major credit bureaus every 12 months. Consumers must generally pay a fee to receive their credit *score*. Each of the three major credit bureaus offer consumer credit scores for purchase for one-time and monthly access fees. It is important to carefully read the terms of purchase, as there are many package deals that include difficult-to-cancel monitoring services or memberships.

You may learn more about purchasing your credit score by visiting Equifax, Experian, or TransUnion online at www.equifax.com, www.experian.com, or www.transunion.com.

Federal law requires lenders that deny you credit to give you the specific reasons why they denied credit as well as the contact information for the credit reporting agency from which they received the information about you. In the event that you are denied credit, you may receive a free copy of your credit *report* from the credit reporting agency. You may also be entitled to a copy of your credit *score* if it was used as a factor in the decision to deny your application for credit.

Improve Your Credit Score

Because your credit score is calculated from the information on your credit report, there are several ways consumers can improve their score. Here are a few tips:

- Regularly check your credit report for inaccuracies and contact the credit bureaus to correct errors. Learn more in this Office's publications entitled *Credit Reports* and *The Credit Handbook*.
- Pay your bills on time. Signing up for automatic payments on the lender's website or through your bank will help prevent late or forgotten payments. Also, pay more than the minimum due if you are able.
- Talk to your creditors about a temporary payment plan if you think you will have trouble making payments. Many creditors are willing to work with borrowers to keep accounts current.
- Be careful not to apply for too much credit at one time. Taking on a new car loan and mortgage at the same time may negatively affect your credit score. Opening lots of new credit cards to take advantage of promotions or discounts will also hurt your credit score.

- You may correct errors on your credit report for free. There are several non-profit organizations that offer free credit counseling. You may contact two of these organizations as follows:

Lutheran Social Services
Financial Counseling Service
(888) 577-2227
www.lssmn.org/debt

National Foundation for Credit Counseling
(800) 388-2227
www.nfcc.org

Learn More

The Federal Trade Commission (FTC), a federal consumer protection agency, provides more information about credit scoring on its website at www.consumer.ftc.gov.

The FTC also enforces federal laws that ensure that consumers can access their credit files and dispute any errors they may find. If you have trouble disputing errors on your credit report or difficulty getting a copy of your credit report or score, you should contact the FTC as follows:

Federal Trade Commission
Consumer Response Center
600 Pennsylvania Avenue NW
Washington, DC 20580
(877) 382-4357
TTY: (866) 653-4261
www.consumer.ftc.gov

You may contact the Office of Minnesota Attorney General Keith Ellison for additional information.

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