

# Understanding Credit Scores

Think of your credit score as a report card for how responsibly you've managed borrowed money. Lenders use it to decide whether to give you a loan, at what interest rate, or sometimes even for things like job applications or renting an apartment. A high score opens doors, while a low score can close them. Credit scores aren't perfect, but they're a key tool to help you understand your financial health.

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## What Is a Credit Score and How It Works

A credit score is a three-digit number, usually ranging from 300 to 850, based on your credit history. The most common model is **FICO**, used by most lenders. Another is **VantageScore**, which works similarly but weighs factors slightly differently. Scores can vary between models, but both predict how likely you are to repay debts reliably.

Scores aren't updated daily—they change based on your actions, like paying a bill or opening a new account. You can monitor your credit for free through **AnnualCreditReport.com**, which provides access to all three major bureaus.

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## Why Credit Scores Matter

Your score influences more than loans:

- **Better loan rates:** A higher score can save thousands on mortgages, auto loans, or credit cards.
- **Approvals:** Lenders, landlords, and even employers may check your score.
- **Lower costs:** Lower interest rates reduce long-term payments.

Low scores may lead to denials or higher rates, while excellent scores can unlock perks like waived fees.

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## The Five Key Factors That Affect Your Score

1. **Payment History (35%)** – Paying bills on time is crucial. Late payments or defaults can drop your score significantly.
2. **Amounts Owed / Credit Utilization (30%)** – Use less than about 30% of your available credit. Paying down balances can boost your score.
3. **Length of Credit History (15%)** – Older accounts strengthen your score. Newer credit means a shorter history, which may limit it.
4. **New Credit (10%)** – Opening multiple new accounts or inquiries in a short time can hurt your score.

5. **Credit Mix (10%)** – A variety of accounts (credit cards, loans, mortgages) shows you can handle different types of credit responsibly.
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## How to Improve Your Credit Score

Building or repairing a score takes time. Focus on what you can control:

- **Pay on time, every time:** Use autopay or reminders.
- **Lower credit utilization:** Pay down balances and consider credit limit increases.
- **Build history gradually:** Secured cards or becoming an authorized user on a trusted account can help.
- **Limit new credit applications:** Space them out to avoid multiple inquiries.
- **Diversify wisely:** Don't open accounts just for mix—use what you need.
- **Check reports for errors:** Dispute inaccuracies through the bureau sites.

**Myths to bust:** Closing old accounts can shorten your history; income doesn't directly affect your score.

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## Checking Your Credit Reports and Scores

You're entitled to free credit reports from all three bureaus via **AnnualCreditReport.com**. Free tools like **Credit Karma** or **Credit Sesame** provide ongoing monitoring. Paid services or your bank may provide FICO scores.

Check reports regularly for errors or fraud. Freezing your credit for protection won't hurt your score.

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## Real-Life Examples

- **Excellent (800+):** Low mortgage rate; savings over life of loan.
- **Good (740–799):** Qualifies for most credit cards; competitive auto loans.
- **Fair (670–739):** Higher rates; may need a cosigner.
- **Poor (Below 670):** Denials common; higher credit card interest.

Paying down debt, even a few thousand dollars, can quickly improve your score and unlock better terms.

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## Summary

Credit scores evaluate your borrowing risk based on payment history, debt usage, and other factors. Higher scores save money and open financial opportunities. By paying on time, managing debt, and monitoring your reports, you can strengthen your score over time.

For a deeper discussion on how credit scores might affect your personal finances, schedule a consultation with **Landis Wealth Management**.

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