

## What is a credit score?

### How credit scores are calculated and what a good credit score is

Credit scores are three-digit numbers lenders use to help inform them whether you may qualify for a loan. Lenders also use credit scores to help them determine the interest rate they might offer you. If you want to buy a home or refinance a home you own, lenders are likely to look at your credit score before they offer you a mortgage.

Many people have a credit score between 550 and 750, with a higher score being better than a lower one. Because your credit score can affect your ability to buy or refinance a home, and the amount of money you will pay in interest over the life of the loan, it's a good idea to know your credit score and make sure it is as high as possible when applying for a loan.

### How credit scores are calculated

Your credit score is calculated from the information in your credit report. Credit reports contain details about your financial history including ...

#### **Payment history**

The history of the payments you've made on loans is an important factor in your credit score. Lenders like to see you consistently pay your bills on time before they offer you a loan. If you see errors in your payment history in your credit report, you'll want to work with the credit bureaus to get them corrected.

#### **Amounts owed**

How much you currently owe and the number of loans and credit accounts you have affect your credit score. For example, if you have reached the maximum balance on several credit cards, this can influence your credit score. The Consumer Financial Protection Bureau (CFPB) recommends you try to limit the credit you use to 30 percent of your credit limit.

#### **Length of credit history**

How long you have accounts and loans impact your credit score. When you have reliably made your loan payments over a long period of time, this can raise your credit score.

## Credit mix

Lenders look at the types of credit you have such as mortgage, car loans, student loans, credit card debt, and more. Having a mix of credit card accounts and installment loans you have managed responsibly might help improve your credit score according to the Fair Isaac Corporation (FICO).

## New credit

How often you apply for new credit also impacts your score. The CFPB notes that people who have applied for several new credit accounts in a short period may be seen as having problems with their finances.

## What are the factors that make up your credit score?

- **35% Payment History:** Whether you've paid past credit bills on time.
- **30% Amounts owed:** How much you currently owe on your accounts and how many accounts you have.
- **15% Length of credit history:** How long you've had credit accounts for.
- **10% New credit:** How often you apply for new credit.
- **10% Credit mix:** The type of credit you have, like auto loans, mortgages and credit cards, and how much you owe.

## What is a good credit score?

There is no single answer to the question "What is a good credit score?" Different lenders have different standards for credit scores they will accept on the loans they offer. And the three credit reporting agencies do not rank credit scores in exactly the same way.

Experian and Equifax both rank credit scores in the ranges you see below. They believe any score above 670 is good and any score below 580 is poor.



## How do credit scores compare?

Credit scores typically break down to this:

- Exceptional 800+
- Very good 740-799
- Good 670-739
- Fair 580-669
- Poor below 580

## Would you like to know if you qualify for a loan with your credit score?

People with lower credit scores may still have options to qualify for a loan. Are you interested in buying a home, refinancing a home, or getting cash out of your home equity? Call one of our knowledgeable Loan Advisors at 877-222-5533 to discuss the Freedom Mortgage loans that may be available to you!

## NOTES & REMINDERS