Understand your credit score

Banks, credit card companies and other businesses use credit scores to estimate how likely you are to pay back money you borrow.

A higher score makes it easier to qualify for a loan and lower interest rates. Many scores range from 300 to 850, but different companies use different ranges.

You have many credit scores

You can have more than one score, because:

- Lenders use different scores for different products
- There are many different credit scoring formulas
- Information can come from different credit reporting sources

For example, a credit card score could be different from a home loan score, and any scores you purchase online could be different from both of those.

For some people, these differences aren't that big. But because lenders use different scores, you might qualify for lower rates with one lender and not another. It can pay to shop around.

Where do credit scores come from?

Your credit scores are generally based on information in your credit reports. This information is reported by your lenders to credit reporting companies. The three biggest are Equifax, Experian, and TransUnion.

Several variables affect your credit score, including:

- How many credit accounts you have
- How long you've had those accounts
- How close you are to your credit limit
- How often your payments have been late
- Other factors

How to raise your score

- **Paying your bills on time, every time has the greatest impact on your score.** One way to make sure your payments are on time is to set up automatic payments, or set up electronic reminders. If you have missed payments, get current and stay current.
- **Don't get close to your credit limit.** Credit scoring models look at how close you are to being "maxed out," so try to keep your balances low in proportion to your overall credit limit. Experts advise keeping your use of credit at no more than 30 percent of your total credit limit.

- **A long credit history helps your score.** Credit scores are based on experience over time. Your score improves the longer you have credit, open different types of accounts, and pay back what you owe on time.
- **Be careful closing accounts.** If you close some credit card accounts and put most or all of your credit card balances onto one card, it may hurt your credit score if you are using a high percentage of your total credit limit. Frequently opening accounts and transferring balances can hurt your score too.
- **Only apply for credit you need.** Credit scores look at your recent credit activity as an indicator of your need for credit. If you apply for a lot of credit over a short period of time, it may appear that your money situation has changed for the worse.

Your credit report matters as much as your score

Mistakes in your credit reports could hurt your credit history and credit score, so check them regularly.

You can get one free credit report from each of the big three credit reporting companies every 12 months. Go to annualcreditreport.com or call **877-322-8228**. In addition, Equifax offers six free credit reports every 12 months, until December 31, 2026. When you visit the site, you may see steps to view more frequently updated reports online. This gives you a greater ability to monitor changes in your credit.

When you get your report, look for:

- Mistakes in your name, phone number, or address
- Loans, credit cards, or other accounts that are not yours
- Reports saying you paid late when you paid on time
- Accounts you closed that are listed as open
- The same item showing up more than once (like an unpaid debt)

How to fix mistakes

If you find something wrong in your credit report, you may contact both the credit reporting company and the company that provided the information (for example, your credit card company). Explain what you think is wrong and why. Include copies of documents that support your dispute. Your credit reports come with instructions on how to dispute mistakes.

About us

The Consumer Financial Protection Bureau regulates the offering and provision of consumer financial products and services under the federal consumer financial laws, and educates and empowers consumers to make better informed financial decisions.

Learn more at consumerfinance.gov

Connect with us

Submit a complaint
consumerfinance.gov/complaint

Tell your story
consumerfinance.gov/your-story

Get answers to money questions
consumerfinan ce.gov/askcfpb

Share your thoughts
facebook.com/cfpb
twitter.com/cfpb

All about credit scores

Credit scores play an important role when you borrow money, so it's wise to get to know what credit scores are and how they work.

What are credit scores?

Credit scores are numbers created by applying mathematical formulas to key pieces of your credit history to calculate your creditworthiness at a moment in time – like a photograph. Companies that design credit scores each use their own complicated mathematical formulas, called scoring models, to create your credit score from the information in your credit report. Factors that make up a typical credit score include the number and type of loan accounts you have, whether you make your payments on time, and your current unpaid debt.

Companies use credit scores to make decisions such as whether to offer a person a mortgage, credit card, auto loan, or other credit product. Credit scores are also used to determine the interest rate a person receives on a loan or credit card, as well as the credit limit they're offered.

Who collects my credit history?

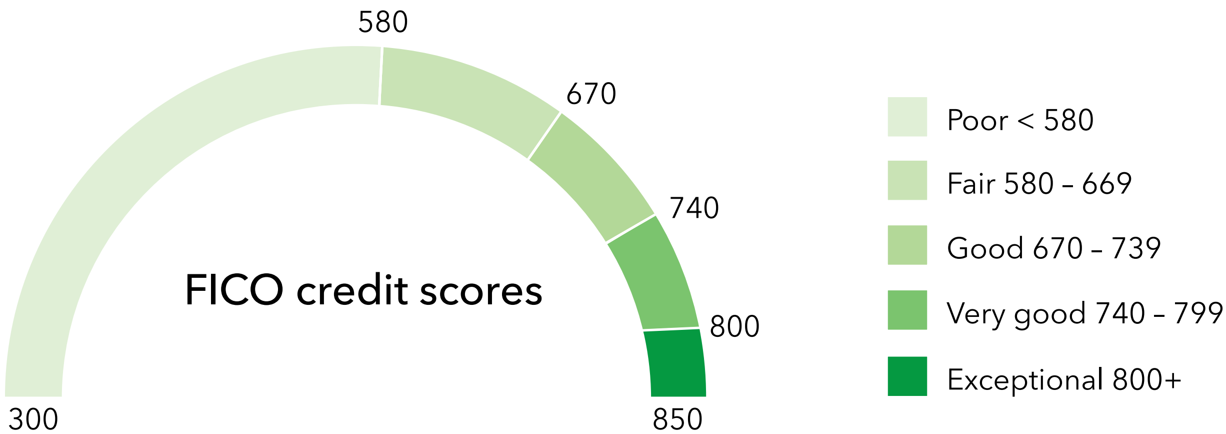
Companies collect consumers' financial and credit information from businesses that furnish it to them. This may include not only information about loans and credit cards, but also things like payment history for rent and utilities. Multiple companies calculate and sell credit scores. Thus, you may have more than one credit score, and the scores may be different from one another. Credit scores may vary as a result of differing scoring models used or information gathered to calculate the scores. Banks, credit unions, credit card companies, and lenders may use credit scores from a range of credit reporting companies.

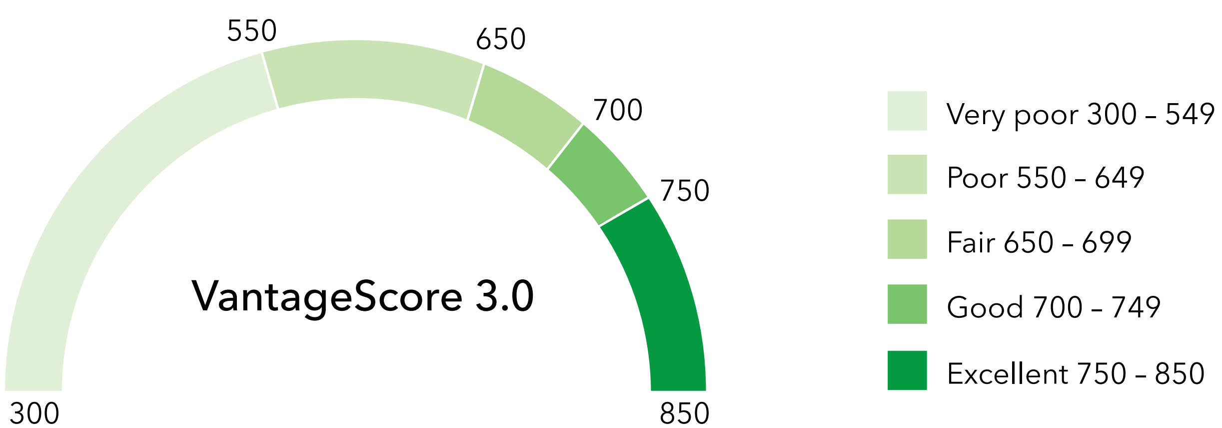
What do credit scores represent?

Credit scores provide a snapshot of a person's creditworthiness. They provide a way for lenders to predict how likely a person is to pay back a loan on time. A higher credit score means you are predicted to be less of a risk. Usually a high credit score makes it easier to qualify for a loan and may result in a better interest rate, but lenders have their own cutoffs to determine eligibility. Most credit scores range from 300 to 850.

FICO (calculated using scoring models designed by Fair Isaac Corporation) and VantageScore (calculated using scoring models designed by VantageScore Solutions) are two of the most commonly used credit scores.

View two different ranges of credit scores:





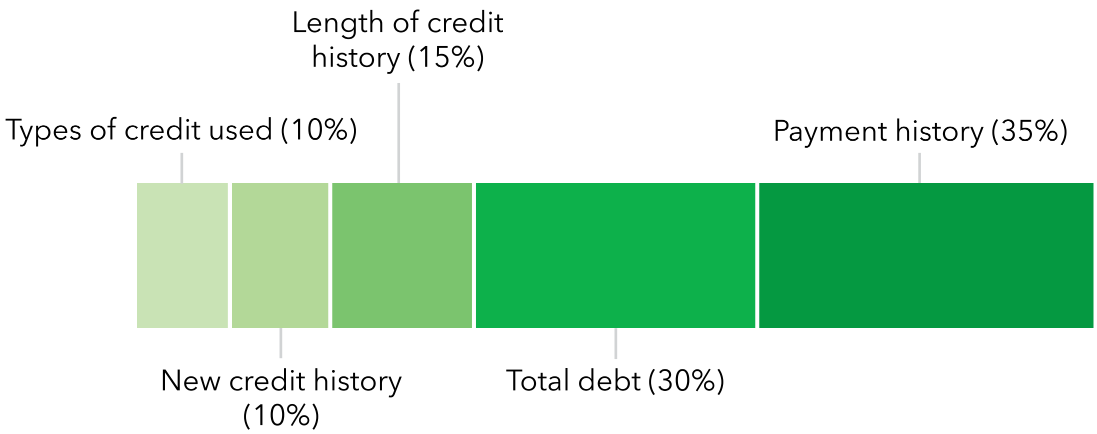
How are credit scores calculated?

Credit scores are calculated based on the information in your credit report. Even though different credit scores have different mathematical formulas, they all use the information from your credit report. So, while some pieces of information in your credit reports may be weighted somewhat differently depending on who is calculating your score, the key is to understand the information in your credit reports. A good rule to live by is to check your credit reports every year through annualcreditreport.com and fix any errors.

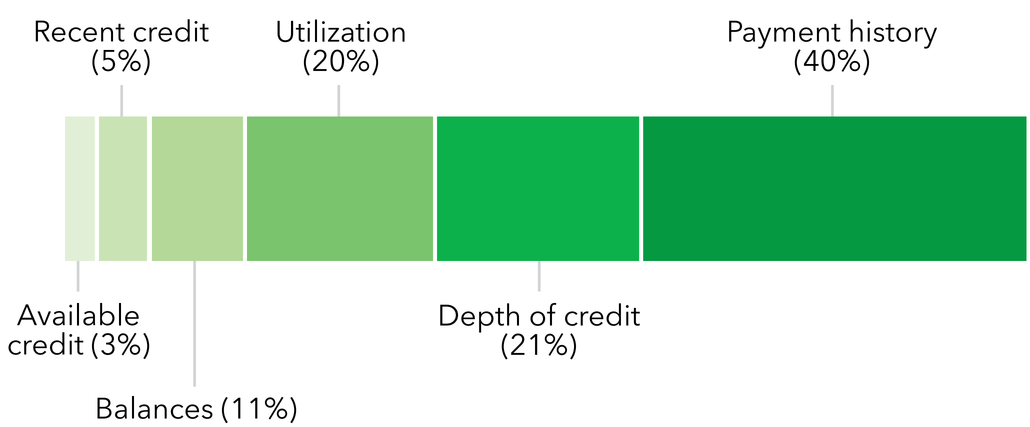
While detailed information about the way that FICO and VantageScore (and other credit score companies) calculate their scores is not public, these companies provide a general sense of what goes into a credit score.

View two credit scoring models:

FICO model



VantageScore model



- **Payment history** tracks whether you are paying your bills on time and as agreed.
- **Total debt, balances, and utilization** look at both total owed as well as how much available credit a person is using.
- **Depth/length of credit history** reflects how long you have had relationships with a creditor(s); the longer your credit history with a lender, the more likely your credit score will increase in this category.
- **New/recent credit** considers all new loans or accounts and includes how many times creditors have requested a person's credit report, which could be an indicator of risk.
- **Types of credit used** refers to a person's credit mix, which includes both credit cards (known as revolving credit) and loans (which can be considered installment credit).

> Tip
>
> The way you use and repay debt affects your credit score. So, remember that your score can be helpful in tracking and improving your credit use and behavior. Paying loans on time and staying well below your credit limit helps you get and keep good credit.

Understanding Credit

What it is, why it's important, and how you can maintain it

Brought to you by Sallie Mae® and FICO

SallieMae®

FICO® SCORE
The score lenders use.™

Introduction

A student loan may be your first major credit experience. This is a good time to become aware of what credit is and how to understand your financial health. It's also an excellent time to start building a foundation for future credit experiences, from credit cards to auto loans and home mortgages.

Whether applying for a federal or private student loan, do your research, read the disclosures, and know your options so you fully understand the loan's terms and conditions. Successful repayment of your student loans can be the foundation for staying on top of your credit and a very bright financial future.

For more information, visit SallieMae.com/FICO.

This handbook will give you insights into:

Encouraging Responsible Borrowing

Sallie Mae has helped more than 30 million Americans pay for college since 1972. We encourage students and families to supplement their savings by exploring grants, scholarships, federal and state student loans, and to consider the anticipated monthly payments on their total student loan debt and their expected future earnings before considering a private education loan.

Credit basics

Credit is an arrangement you make with a company or individual to receive goods, products, or services now that you will pay later. It's a measure of your financial reliability and can be used for small or large purchases. Loans, which are often credit-based, involve borrowed money that you have to pay back — often with interest. Credit is offered in many forms, such as:

Revolving credit: When you get a credit card, you're offered funds that you can continually use, up to your established limit, as you pay down the balance. Interest accrues (grows) on the money you borrow until you pay it back.

Installment or term loans: As with student and automobile loans, an installment loan is one that is paid back over time with a set number of scheduled payments. You don't get additional credit as you pay down the loan, however. And keep in mind that, regardless of whether you actually graduate from school or not, student loans must be paid back with interest.

Mortgage: When you need a home loan, you take out a mortgage. The loan is secured by the property you're purchasing (collateral).

Credit history: Your credit history is a collection of all the pieces of financial information that relate to your life. It helps current and future creditors decide, "If I loan you money, what are the odds that you will repay it?" Your credit history includes:

- How long you've had your individual credit accounts
- Your account limits and balances
- Your payment history

Credit score: Your credit score is a number that summarizes your credit risk. Your credit score:

- Is based on a snapshot of your credit file at a particular point in time
- Helps lenders evaluate your credit risk
- Has an impact on whether you can get new credit and the terms, including the interest rate, that lenders offer you

Did you know?

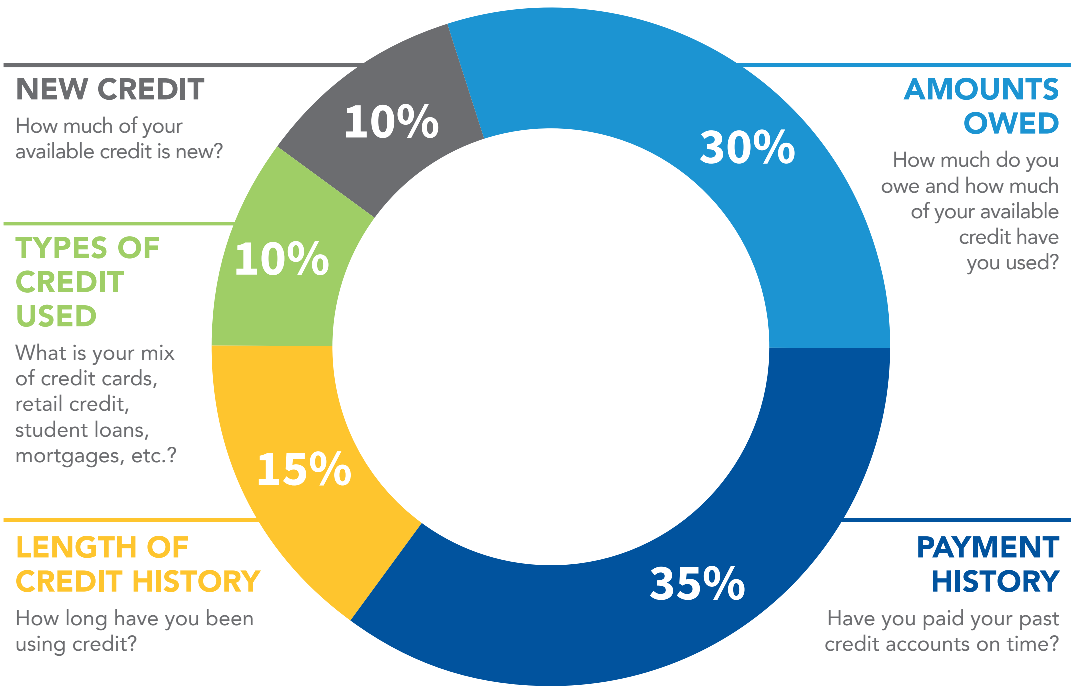
It's good to demonstrate credit history by responsibly borrowing money and/or having credit cards that you pay on time. With no credit history, you may pay a higher interest rate or not be able to get a bank loan or mortgage.

FICO® Scores

Created by Fair Isaac Corporation (FICO), FICO® Scores are used in 90% of lending decisions in the U.S. Lenders can request FICO® Scores from all three major consumer reporting agencies — TransUnion, Equifax, and Experian — and lenders use them to help make billions of credit decisions every year. FICO® Scores are developed based solely on information in consumer credit files maintained at the consumer reporting agencies. When you apply for credit, your FICO® Scores can influence the credit limit, interest rate, loan amount, rewards programs, balance transfer rates, and other terms offered by lenders.

What makes up a FICO® Score?

Learning your FICO® Score can help you better understand your credit risk and your financial health.
A good FICO® Score means better financial options for you. Here are the factors that determine it.



What exactly is a FICO® Score?

It's a three-digit number calculated from the credit information on your credit report at a particular point in time. It summarizes information in your credit report into a single number that lenders can use to assess your credit risk quickly. FICO® Scores, which are used by the vast majority of lenders, generally fall within the 300-850 score range.

Did you know?

In addition to looking at your FICO® Score, examining your score factors can help improve your knowledge of your financial health.

What is a score factor?

When you receive your FICO® Score, you'll often receive several reasons why your score was not higher. **These factors are important because they'll give you an idea of how you can better understand your financial health.** Score factors can include:

- The amount you owe is too high
- You owe too much on past-due accounts
- You owe too much on revolving accounts (i.e., credit cards)
- You owe too much on your installment accounts relative to the original amount
- You have a recent public record or collection on your credit report
- You don't have enough revolving accounts (i.e., credit cards) to be evaluated

What is a "good" FICO® Score?

With a FICO® Score, the higher your score, the better it is. The following chart shows a breakdown of FICO® Score ranges found across the U.S. consumer population. It also provides general guidance on what a particular FICO® Score range represents. Again, each lender has their own credit risk standards.

800 or higher

- The FICO® Score is in the top 20% of U.S. consumers
- Demonstrates to lenders that the consumer is an exceptional borrower

799–740

- The FICO® Score is in the top 40% of U.S. consumers
- Demonstrates to lenders that the consumer is a very good borrower

739–670

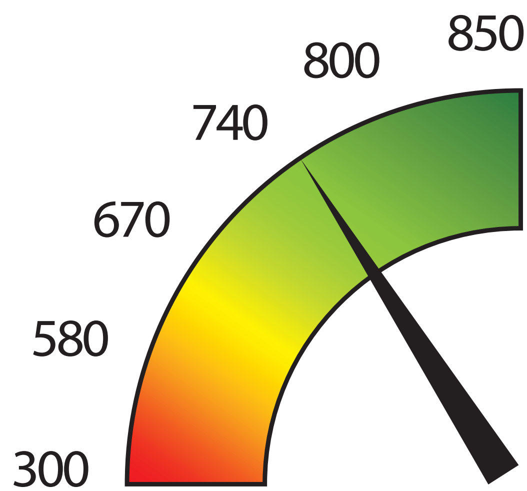
- The FICO® Score is near or slightly above the average score of U.S. consumers
- Most lenders consider this a good score

669–580

- The FICO® Score is below the average score of U.S. consumers
- Some lenders will approve loans with this score

580 or lower

- The FICO® Score is in the lowest 20% of U.S. consumers
- Demonstrates to lenders that this consumer is a very risky borrower



Sample FICO® Score

Did you know?

FICO offers a FICO® Score Estimator, which you can access at: **SallieMae.com/EstimateScore**

Why do FICO® Scores change from month to month?

There are many reasons. FICO® Scores are calculated each time they are requested, so the calculation takes into consideration the information that is in your credit file at that time. As the information in your credit file changes, FICO® Scores can also change. Keep in mind that certain events, such as late payments or bankruptcy, can lower FICO® Scores quickly.

What is a typical FICO® Score for someone just starting out with credit history?

A FICO® Score is a complex algorithm based on unique credit report data, so there is no "typical" or "entry-level" score. Someone new to credit may have difficulty scoring in the highest score ranges, due to a limited number of active accounts and length of history. **Even if you're starting out, it's still possible to have a FICO® Score that meets lenders' criteria for granting credit.**

How much credit history do you need to be considered "established"?

Many variables go into determining your FICO® Score. If you have a longer credit history, you're generally determined as a lower risk to lenders. As your revolving credit history lengthens and you pay your bills on time, this factor may have less of a negative impact on your FICO® Score.

How can a higher FICO® Score save you money?

When you apply for credit — whether it's a credit card, car loan, student loan, apartment rental, or mortgage — lenders will assess your risk as a borrower. Your FICO® Score, along with other information, may affect not only a lender's decision to grant you credit, but also how much credit and on what terms (interest rate, for example). Keep in mind that your FICO® Score is only one of the many factors lenders consider when making a credit decision.

Example:
On a $20,000, 48-month auto loan, a borrower with a FICO® Score of 720 could pay $131 less each month in interest than a borrower with a FICO® Score of 580. That's a savings of $6,288 over the life of the loan.

Note: The savings are due to the impact of each borrower's FICO® Score on the interest rate they are offered.

Did you know?

FICO offers information on how to understand your FICO® Score at: **SallieMae.com/Score**

Obtaining your credit report

When you apply for credit — such as a credit card or student loan — the company from which you're seeking credit checks your credit report from one or more of the three major consumer reporting agencies, TransUnion, Equifax, and Experian. In addition to your credit report, they'll generally use a credit score like FICO® Scores in their evaluation of risk before lending to you.

What is in your credit report?

While each company's report may look different, they all have the same basic information indicating your credit activity: if you make your payments on time, how much credit is available to you, how much you're using, and potential collection activities.

Your personal details: Name, address (and previous addresses), Social Security number, date of birth, etc.

Make sure that the report reflects your identity information and not someone else's.

Your credit history: Open and closed credit accounts, balances and information on student loans, auto loans, and mortgages, and payment history.

Make sure that you really did open all of these accounts, and that you're not a victim of identity theft. Also, consider whether you really need all of these accounts, since they can have an impact on your credit.

Your public records: Delinquent accounts, liens, bankruptcies, lawsuits, etc. A public record can remain on your credit report for a number of years, depending on the type of account.

Make sure that this information is correct. And if it is, seek out ways to improve your credit health.

Credit inquiries: Anyone who has pulled your credit report based on your request for credit over the past two years.

Make sure that this information is correct. Too many inquiries — when a business requests a copy of your report — can have an impact on your credit health. Businesses must have a legitimate reason to access your report.

Review your credit reports annually to make sure there are no mistakes — especially before you make a big purchase like a car or house, where you'll need to apply for a loan.

Did you know?

When evaluating credit risk, lenders generally pay most attention to your:

- FICO® Score
- Payment history
- Current debt
- Accounts in collection
- Public records, such as bankruptcies, judgments, and liens
- Financing that you've successfully managed
- Length of credit history
- Recent activity
- Income

Checking your credit

Thanks to the Fair and Accurate Credit Transactions (FACT) Act, you can get a free copy of your credit report every year through **AnnualCreditReport.com**. You can order your report from all three major consumer reporting agencies — TransUnion, Equifax, and Experian — at one time or spread them out throughout the year.

What to look for in your credit reports:

- Missing monthly statements or unexplained activity on current accounts
- Information about credit cards or bank accounts you didn't open
- Any other incorrect information, like your name, address, and Social Security number

If you suspect identity theft, do the following as soon as possible:

Place a fraud alert on your credit reports by contacting one of the three credit bureaus; that credit bureau will notify the others.

Report the loss or theft of your card(s), including any fraudulent transactions, to the card issuer as quickly as possible. Many companies have toll-free numbers and 24-hour service for such emergencies.

File a report with the police and the FTC through its identity theft hotline: **1-877-IDTHEFT** (1-877-438-4338).

Did you know?

If you are a victim of identity theft, create an identity theft report with the police and keep careful records on every call or piece of correspondence.

Knowing your credit

For all types of credit, it's important to make your payments on time, every time, and to make at least the minimum payment. Whenever possible, pay more than the minimum. If you do, you'll pay less interest over time. If you can't make the minimum payment, offer any payment you can. Even a partial payment will demonstrate your willingness to pay back your debt. **Let's examine three types of loans: student loans, credit cards, and auto loans.**

Student Loans

When you apply for your loan, make sure that you know the terms and payment dates. Consider enrolling in automatic debit so you don't have to remember to mail in your payment each month. To set up automatic payments for your Sallie Mae-serviced loans, log into your account at SallieMae.com and select automatic debit as your payment option.

Is my FICO® Score different because I'm a college student; do you take my future earning potential into consideration?

No, income and income potential are not considered in FICO® Scores.

Does taking out a student loan have a negative impact on my FICO® Score?

Student loans are considered in your FICO® Scores, along with other credit obligations on your credit report. When you apply for and open a student loan, the FICO® Scores see this as a new request for credit and an increase in the amount you owe on your outstanding loans. A student loan will increase your amount of debt but, as you establish a history of paying your bills on time, lenders tend to view you as being a relatively lower credit risk.

I don't start paying my student loan until I graduate; will this harm my payment history?

Deferred loans do not harm your FICO® Score. In fact, the existence of your loan can help establish your length of credit history and mix of credit.

I have the option of starting to pay my student loan while I'm in college. Will that impact my FICO® Score?

When you pay installment loans (loans where you make regular payments, such as a student loan) on time, it shows responsible behavior and lowers your total outstanding debt. Missing or late payments will have a negative impact on your FICO® Scores.

Does moving my loan into forbearance impact my FICO® Score?

Forbearance is a period during which payments are temporarily postponed under certain circumstances. The debt is not forgiven, but payments are suspended until a later time. For example, forbearance may be granted if a borrower is experiencing temporary financial difficulty.

Your FICO® Scores do not consider the fact that a loan is in forbearance, so moving a loan into forbearance would not affect your score. However, your loan is still considered part of your personal credit. Even in forbearance, the amount of your loan will be taken into account and could impact your scores.

Does it impact a FICO® Score when a loan balance increases due to interest capitalization?

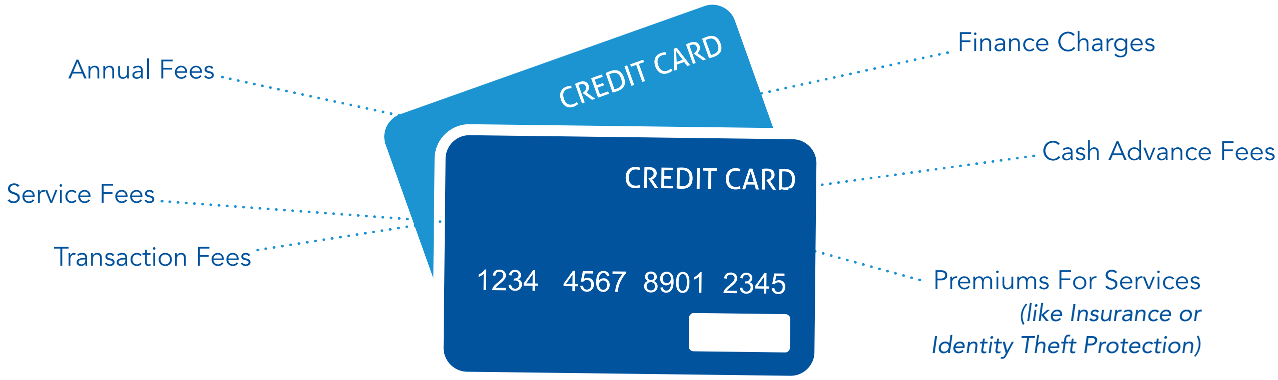
Interest capitalization is unpaid, accrued interest that is added to the principal amount of your loan. Capitalized interest can increase your principal amount. Depending on how information is reported to each of the consumer reporting agencies by your lender, capitalized interest could have an impact on a FICO® Score.

Did you know?

Student loans can be a launching pad for a solid credit history. Visit **SallieMae.com/ManagingYourLoans** for more infomation on how to successfully pay your Sallie Mae-serviced loans.

Credit Cards

A credit card can be a good way to build credit. When selecting a card, you should compare different cards' Annual Percentage Rates (APR). An APR is the actual yearly cost of borrowing money, including interest and fees, given as a percentage. You should also be aware of hidden fees. If you miss a payment, make a late payment, or exceed your credit limit, you may be charged fees. Here are additional fees to factor into your choice:



I've been an approved user on my parents' credit card for the past few years; will that impact a FICO® Score?

Being an authorized user on your parents' account can help establish your credit history and create a profile of your behavior for lenders to consider. Keep in mind that any payments that are late or missed on that account may have a negative impact on your FICO® Score.

Should I open a secured credit card to establish a credit history for the FICO® Score?

A secured credit card is like a savings account that you can charge against. Your credit limit is based on the amount of money that you deposit. For instance, you put $400 into the account and you can charge up to $400. It may be reported on your credit report as a credit card. A secured credit card can be a great option for people without credit or with poor credit.

Before you open a secured card, make sure that the issuer reports to the consumer reporting agencies (Equifax, TransUnion, and Experian). Not all secured cards are reported.

How many credit cards should I have?

There is no one answer for everyone. However, having a single credit card can be risky if you have a large unplanned expense. You may want to consider having more than one card. On the other end of the spectrum, maintaining a large number of credit cards can complicate your financial health management. For example, having more cards to manage and pay may cause you to miss seeing a bill and making a payment on time.

Did you know?

Try to pay off the balances of credit cards with higher APRs. A card with a lower APR means less interest accrues and you may be able to put more of your money toward your principal amount and less toward interest.

Auto Loans

When you can't pay the entire sale price for your car, you can take out an auto loan. As with any loan, you are responsible for paying both the principal amount and accrued interest. Keep in mind that buying a car includes other expenses (not covered by the auto loan) like taxes, insurance, inspections, fuel, maintenance, and repairs.

Does a FICO® Score treat an auto lease differently than an auto loan?

Generally, no. Depending on how the credit extended to you is reported by your lender to the consumer reporting agency, a lease and a loan for purchase are generally treated the same from a credit report and score calculation standpoint.

Is there a different impact on my FICO® Score if I buy a new or used car?

No, your credit report will reflect the loan amount as outstanding debt either way.

I need to sell my car before it's paid off; how does that impact my FICO® Scores?

Assuming you use the proceeds of the sale to pay off the auto loan, your level of indebtedness will be reduced, and may impact your scores. Keep in mind the credit amounts you owe represent about 30% of FICO® Scores.

Did you know?

The amount you owe in loans represents about 30% of your FICO® Score.

Financial health information

Create a budget

There are a number of websites that offer models for budgeting. Sallie Mae has a downloadable monthly budget worksheet that can help you stay in control of your finances during college. Create yours at **https://www.SallieMae.com/CollegePlanningToolbox**.

Pay on time

- Always pay your bills on time — late payments and collections can impact your FICO® Score. Paying off a collection account or closing an account on which you previously missed a payment will not remove it from your credit report. It will stay on your report for seven years.
- If you have missed payments, get current and stay current.
- If you've had a hard time paying your bills on time, consider signing up for an automated bill pay service.
- If you're having trouble paying your bills, contact your creditors. Don't wait and hope it gets better.

Manage your accounts

- Keep your balances low.
- High balances on your credit cards and other revolving credit can lower your FICO® Score. Consider increasing your monthly payments until all balances are manageable.
- Manage credit cards responsibly. In general, having credit cards doesn't hurt your FICO® Score if you make payments on time. People without credit cards, for example, tend to be at slightly higher risk than people who have shown they can manage credit cards responsibly.

Monitor your score

It's a good idea to check and monitor your FICO® Score 6-12 months before applying for a big loan. That lets you know where you stand.

Correct mistakes

If you find mistakes on your credit history, contact the following credit bureaus directly:

Equifax	Experian	TransUnion
Equifax.com	Experian.com	TransUnion.com
1-800-685-1111	1-888-397-3742	1-800-916-8800

Did you know?

Paying your bills on time, even if it's the minimum amount required, can help to avoid damaging your credit.

Glossary

Accrued interest: The amount of interest that has been charged to the loan.

Annual Percentage Rate: The annual cost of borrowing, including all interest, fees, premiums, etc., expressed as an annualized percentage rate based on the expected term of the loan(s).

Capitalized interest: Unpaid Interest added to the principal amount of a loan. Capitalized interest can increase the principal amount.

Consumer Reporting Agency *(Sometimes referred to as a credit bureau)***:** A company that collects information on your credit rating. It makes that information available to companies and institutions from which you've requested credit.

Credit: An arrangement to receive goods, products, or services now and pay later.

Creditor: A lender; an entity or person who loans you money.

Credit history: A history of all the pieces of financial information that relate to your life — how long you've had your individual credit accounts, account limits and balances, and your payment history.

Credit report: The report that details your credit history — how much credit you have and/or have available, how much credit you're using, and if a creditor is pursuing you for unpaid loans.

Credit score: A number that summarizes your credit risk, based on a snapshot of your credit file at a particular point in time. It helps lenders evaluate your credit risk.

Forbearance: A period during which payments are temporarily postponed under certain circumstances. Customers must apply for forbearance.

Interest rate: The rate charged to borrow money.

Loan: Money that is borrowed and which you have to pay back — often with interest.

Principal amount: The sum of the unpaid amount borrowed plus any other amounts that have capitalized. Depending on the loan, this may also include up-front fees.

Did you know?

For more information on understanding credit, FICO® Scores, and your student loans, visit **SallieMae.com/FICO**.

Borrowers and cosigners may receive their FICO® Score quarterly after the first disbursement of their loan. FICO® Scores are delivered only to borrowers and cosigners who have an available score, are based on data from TransUnion, and may be different from other credit scores. This benefit may change or end in the future. FICO and "The score lenders use" are trademarks and/or registered trademarks of Fair Isaac Corporation in the United States and other countries.

Sallie Mae Bank and Fair Isaac are not credit repair organizations as defined under federal or state law, including the Credit Repair Organizations Act. Sallie Mae Bank and Fair Isaac do not provide "credit repair" services or advice or assistance regarding "rebuilding" or "improving" your credit record, credit history, or credit rating.