

Credit Score Breakdown

CREDIT SQUIRREL: Excuse me. What do you know about credit scores?

JEN: Hmmm. Not very much. Also, who said that?

CREDIT SQUIRREL: I did. Do you know what a good credit score is?

JEN: Uh, twelve?

CREDIT SQUIRREL: No.

JEN: A hundred.

CREDIT SQUIRREL: No.

JEN: Four... out of five.

CREDIT SQUIRREL: No. Allow me to explain. A credit score is a three digit number that's calculated by credit bureaus and gives banks, credit unions and landlords an idea of how likely you are to pay your loan or rent on time. Most scores are between 300 and 850.

JEN: But the higher the better, right? I always like to score as many points as possible.

CREDIT SQUIRREL: Excellent. Having a low score

means you could be turned down for a loan. And if you're somewhere in the middle...

JEN: You still get the loan?

CREDIT SQUIRREL: Sometimes, but you'll have to pay more interest, and that's not good because it will cost you more in the long run.

JEN: So what goes into a credit score, Credit Squirrel?

CREDIT SQUIRREL: I'm glad you asked. Each credit bureau has its own calculation, but it basically goes like this: 35% is based on payment history. If you make payments on time, it's good. 30% is based on capacity. This shows how much of your available credit is being used. If you're close to maxing out the credit limit on your credit cards or other lines of credit, it's not good. Even if you've been making regular payments on time. 15% is based on length of credit. The longer that you've been using credit, the clearer the snapshot of your credit habits. This is your credit history. 10% is based on new credit. If you open lots of credit cards or loans in a short amount of time, you look risky. Lastly, another 10% is based on the types of credit you use. This is your mix of credit cards including retail store cards, bank and credit union cards, plus student and auto loans and mortgages. And that my friend is the breakdown of a credit score.

JEN: Thanks Credit Squirrel. That was very helpful.

CREDIT SQUIRREL: Do you have any more questions for me?

JEN: Yes. How do you know all this and also how come you can talk? Thanks Credit Squirrel!

JEN: Oh look. Credit Squirrel forgot his tiny hat. Boop.