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Concept Essay

Credit Score

Each year, you are able to request one free credit report from all three major credit reporting agencies: TransUnion, Equifax, and Experian. There are many reasons why you may want to do this, but mostly it is to obtain your FICO score, check your reporting history and accuracy and to make sure you are not a victim of identity theft. Your score can range from 300 to 800. Anything above 750 is considered excellent, below 550 is considered trouble (Struck). FICO is short for Fair Isaac Corporation, the company that created the formula on how to determine your score.

Now, many fear the word credit score, while others simply brush it off like a piece of lint. These feelings come from ignorance of how credit works, and how it can affect many aspects of your life. Use of prudence and responsibility by way of timely payments and smart budgeting can benefit you. Shouldering debt you don’t need or being lazy or irresponsible with payments can cripple your credit.

“With credit scores affecting so many important aspects of our lives, it’s no wonder that people are concerned with improving their scores. Once they start to pay attention to them, though, consumers often find their scores changing in unpredictable ways. Knowing that your score is not a rating of your credit worthiness, but a measure of where your credit worthiness ranks relative to everyone else is the first step in understanding your score and how to manage it.”(Demyanyk, p.1)
The system is a tangled web of formulas and equations that one could only hope to figure out in their lifetime. To get a handle on how to predict their own score and worthiness, all it takes is a little studying and diligence. Because the world is changing every day, due to others’ habits with the use of credit cards and loans, it is nearly impossible to predict exactly how your score will stand against others, but there are many things you can do to stand above the rest.

Payment history is one of the largest factors to your credit score. No matter what it may be for; utilities, phone bill, rent or mortgage, car loan or credit cards, if you are late or miss a payment, it can be reported to the credit bureaus. Your score may drop, and that missed or late payment will show up on an account history for years to come, affecting your credit worthiness for future loans or possible waivers in utility or phone deposits. This also includes any medical or service accounts.

Other factors determining your credit score is your account history, amount of credit, and hard inquiries on your personal report. Account history is the length of time you have had an account open, and is usually an average between all of your accounts combined. Some common mistakes people make are closing accounts they haven’t used in a while or have had for a long period of time. This may seem like a good idea, but that brings down your account history and your debt to credit ratio, and more likely than not will bring down your credit score. Another mistake is trying to obtain many credit cards or loans in a short amount of time, thus clogging up your hard inquiries and lowering your score. A hard inquiry is when a lender pulls your credit report to check for your credit worthiness. When lenders see multiple attempts to obtain credit, they may think that you are in need of “fast cash” and may not be able or willing to pay off the debt incurred.
All these factors may seem overwhelming, but learning about them is a good start in understanding your credit score and how it may affect your personal life beyond applying for credit. One thing you may pass over when signing paperwork for employment is the release form for your credit report. Yes, employers can and do check your credit report. It can affect whether you get the job or not. You may think that it is not fair, but it is another way for employers to check out the responsibility and discipline of future employees. A bad credit score can also affect your ability to pass background checks or obtain security clearances for government jobs or positions that require them. Another thing you may not think about is your insurance. Again, your credit can have an effect on the amount you pay for insurance. It can increase or decrease depending on your credit history.

Now, think about that future spouse of yours. How will you feel if they had a huge amount of credit card debt in the sum of $30,000 or more? What if their score was very low and they didn’t care about checking their report annually, or settling old debts? Would this be something you could live with if you got married and found out the dream house you have always wanted was unobtainable, because your partner had bad credit history and scores?

These are all reasons to get to know your FICO score and know your credit history. The longer you have good standing accounts and on-time payments, the better your score will become. The whole idea behind your credit score is seeing how you match up with other people in credit worthiness. When you reach a certain number, whether it be that 750 mark or 690, you are looked at as being more reliable at paying off debts than someone with a score of 550. Young or old, it is never too late to start aiming for a higher credit score. With a little hard work and smart budgeting even people with the lowest scores can eventually obtain good credit. It
will benefit you in many ways, while choosing to ignore it will do nothing to help secure a financially stable future.
Works Cited.
