



## Understanding Your Credit Score

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### **Building and Understanding Your Credit**

You hear a lot about your credit score, which is very important when you think about making substantial financial decisions. Achieving and maintaining a high credit score will help make some of life's major financial goals easier. This article will explain how your credit score is determined and what you should do to increase it.



### **Credit Score Components**

Your credit score is composed of five major parts with varying degrees of importance.

1: **Payment History**: Your payment history accounts for roughly 35% of your score and has the largest impact. Even if you miss making the minimum payment on an account *once*, this will negatively impact your score. Consistently paying your bills on time is the easiest way to increase your credit score.

2: **Debt Outstanding**: The total amount of your outstanding debt compared to your total available credit accounts for 30% of your score. A rule of thumb is you do not want to keep more than 30% of your total allowable credit outstanding. A quick example is this: If you have

total available credit of \$10,000, carrying a balance over \$3,000 will negatively impact your score.

3: **Length of Credit History**: How long you have had credit accounts for 15% of your score. This is not based on age but rather how long you have had credit. After you have built up six-months of on-time payments to your creditors, you will be able to pull your score. The longer you maintain excellent credit behavior, the better your score.

4: **Types of Credit Used**: The types of credit you have compose 10% of your score. It is better to have more than one type of debt. For example having a credit card, car loan, and mortgage positively affects your credit as long as you make on-time payments. It more positively impacts your score than just having multiple credit cards. It shows you are paying more than one type of debt on a consistent basis.

5: **New Credit**: The number of times you search for new credit composes 10% of your score. An example of this is how often you apply for a credit card or loan, say for a mortgage or car. Checking your credit is not considered "searching for credit." These will not cause any harm and are referred to as "soft pulls." "Hard pulls," when a company who is going to offer you debt pulls your credit report, will hurt your credit if you apply for too many at once or too frequently. If you are applying for a mortgage, it is best you do not also apply for a new credit card and/or car loan at the same time. More than one "hard pull" in a short period of time may negatively impact your credit score.



<https://www.myfico.com/credit-education/whats-in-your-credit-score/>

This illustration shows the five components of your score. As you can see, there is varying importance to the different categories.

### Score Range

You may be “excellent” in one category while “poor” in another. Your credit score can range between 300 and 850. The more consistently you show good credit habits, the higher your score will climb. It’s easy to become discouraged with your score as it does take time for it to bounce back from being low. When you are just starting out and applying for credit, it takes time to build good credit history. Consistently behaving in a financially sound manner will continue to increase your score.

### Monitor Your Credit

Each credit agency is required to let you pull a free report once a year. This will allow you to pull a report for free three times a year, once every four months. The three major credit agencies are TransUnion, Experian, and Equifax. It is important for you to monitor your credit report. You are responsible for fixing any items that you see that are incorrect on your report. This can be troublesome if someone steals your identity. Negative information eventually ages off after seven years. Mistakes made in early adulthood can be corrected with time.

It is good practice to pull your credit report on a consistent basis. Not only will you be able to request your score, but if you see something that does not belong to you, finding and correcting the error as soon as possible helps. Each report will itemize your accounts, listing all open credit cards, personal loans, and commercial loans. Generally your score will be identical from each of the scoring companies. It may vary by a point or two, but the agencies should all have you in the same range.

TransUnion - <https://www.transunion.com>

Experian - <https://www.experian.com>

Equifax - <https://www.equifax.com>

It requires time and diligence to build and maintain a high credit score. Establishing sound financial habits will help you in the long run.



<https://nationalcreditfederation.com/what-is-a-good-credit-score/>

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