Business News

When it comes to credit, it pays to know the score

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For better or worse, credit scores play a pivotal role in most areas of our financial lives, from getting an auto loan and renting an apartment to qualifying for a job.

But the latest results of an annual survey by the Consumer Federation of America, a consumer watchdog, and VantageScore Solutions, a credit score modeler, show millennials often don't realize just how often credit scores are used.

Only 18 percent of millennials, for example, could correctly identify all six of the types of businesses listed in the survey that might check credit scores, compared with 32 percent for older consumers. (Millennials are defined as those ages 18 to 34.)

That may not be surprising, given young adults have minimal experience with credit, but the knowledge gap comes at a critical time. "This is the group that is most likely, for the first time, purchasing credit and other services that are affected by their credit scores," said Stephen Brobeck, executive director of the consumer federation.

Take student loans. According to the Institute for College Access and Success, the majority of students graduating from four-year colleges have education loans. If students fail to manage those loans properly, the consequences could be felt for years to come.

How to become credit savvy. The good news is that it doesn't take much to get on the right track.

Brobeck says doing three simple things can go a long way to helping you build a strong credit profile: paying your bills on time, keeping your credit card balance low (or better yet, paying off your balance each month) and checking your credit report.

Several things help determine your credit score, but one of the most important is whether you pay your bills on time.

For the widely used FICO score, payment history makes up 35 percent of the score, the most of any category.

FICO scores range from 300 to 850, and being 30 days late on a payment or more can drop your score. "Missing a payment should be avoided at all costs," said Anthony Sprauve, a FICO spokesman.

The amount of credit you borrow is also important since it determines 30 percent of your FICO score. The lower your balances are, the better. Most experts, for example, recommend that you charge no more than 25 percent of the maximum limit on a credit card.

Where to get help. A credit report may not be a thrilling read, but it will show you the types of businesses that report information about you.

By law, you're entitled to a free copy of your report from each of the three main credit-reporting agencies -- Equifax, Experian and TransUnion -- once every 12 months. To get yours, go to annualcreditreport.com.

It also gives you a chance to check for errors.

Adrian Nazari, chief executive officer of Credit Sesame, which provides consumers with free credit information, says that in his research he's found two-thirds of consumers pay higher interest rates on loans than they should, often because of errors on a credit report.

Some companies may claim they can correct errors on your credit report or improve your credit score in exchange for a fee. According to the consumer federation study, half of millennials believe these organizations are helpful.

But there is no shortcut for improving your credit standing, Brobeck says, and there are free ways to fix credit report errors.

To learn how, check out the tips offered by the Federal Trade Commission (go to consumer.ftc.gov/topics/dealing-debt, then click on the topics under "credit repair").

And if you'd like to learn more about credit, take a free online quiz that the consumer federation helped develop at creditscorequiz.org.