FIRST for Medical Education
Financial Information, Resources, Services, and Tools

AAMC
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Association of
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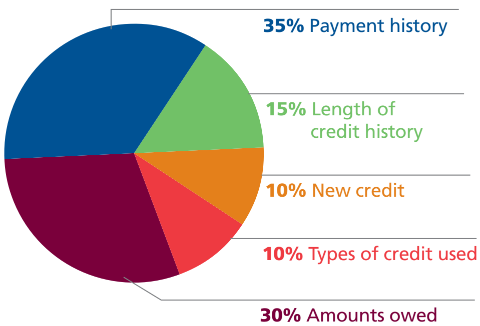
Your Credit Score: What it is and Why it Matters

You probably already know that the better your credit score, the more likely you are to get approved for your next loan, but did you also know that it can impact the interest rates the lender might charge? Read more to find out how your score is computed and what steps you can take to keep it high.

How Your Credit Score is Derived

A credit score is a numerical calculation that takes into account the various entries in your credit report, and virtually all lenders look to it to determine how responsibly you manage your credit obligations. The best known and most commonly used credit score is a FICO® score, with scores ranging from a low of 300 to a high of 850 and determined according to the following:

- **Payment history**
  Includes number of accounts paid on time; number of accounts past due (and by how long), accounts in collection; charge-offs; bankruptcies
- **Amounts owed**
  Includes amount owed, number of accounts with balances; outstanding balances in proportion to total credit lines
- **Length of credit history**
  Length of time accounts opened (longer is better!)
- **New credit**
  Number of accounts recently opened, including number of new credit inquiries.
- **Types of credit used**
  "Mix" of credit type, such as car loans, mortgages, credit cards, etc. (Lenders like to see a variety of credit types.)



The above shows how the components are weighted.
Source: www.myfico.com

The Benefits of Good Credit

Good credit means you're more likely to get a loan approval. Beyond that, though, there are additional benefits you might enjoy:

- **"Cheaper" loans**, since many lenders charge lower interest rates for those with higher credit scores
- **Easier time renting an apartment**, since landlords do credit checks
- **Better chance of getting a job offer**, since many employers check credit ratings
- **Opportunity to take advantage of deals** offered only to those with good credit

What Improves Your Score?

- Paying bills on time
- Having a small outstanding balance in proportion to total credit lines
- Having a reasonable number of credit cards (as opposed to a dozen!)

And What Hurts It?

- Missing payments or failing to pay at least the minimum amount due
- Having delinquent student (or other) loans
- "Maxing out" on your credit cards
- Having too short a credit history
- Declaring bankruptcy (!!)

For more information, see the online article by the FDIC (Federal Deposit Insurance Corporation) entitled ***"Simple Mistakes that Can Lower Your Credit Score."***

See Related Topics:
Borrowing 101 • Your Credit Report

Please be aware that there are three major credit-reporting agencies – Equifax, Experian, and TransUnion – that maintain credit scores on borrowers and that there may be some variation in calculations.