

NEWS FROM

KHEAA–Alabama

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Money Tip for Students, June 2022

Students should learn about credit scores

Being familiar with how credit scores work is important information for students, according to KHEAA–Alabama.

Your credit score is a three-digit number that has a long-lasting effect on your buying power. You want to build a good credit score so you can tap into resources to buy a car or house, or if you have another expensive need. A good credit score can open doors, but a bad one can make all transactions or loans more difficult and expensive. That's why it's important to learn how credit scores work and how they can affect your lifestyle.

Although there are several scoring methods, the most widely accepted one comes from FICO. Your FICO score ranges from 300 to 850. These items make up your FICO score:

- **35 percent is based on your payment history.** Early payments will have a higher number than on-time payments, which will have a higher score than late payments.
- **30 percent is based on outstanding debt.** This outstanding debt is how much you owe on loans, mortgages, credit cards, etc. Having a lot of credit cards can hurt your score, especially if you're near your borrowing limit.
- **15 percent is based on the length of time you have had credit.** The longer you have been borrowing and making payments on time, the better your score.
- **10 percent is based on new credit.** Opening several new accounts will have a negative effect on your score. Also, the more inquiries you have on your credit report in a year, the lower your score will be.
- **10 percent is based on the types of credit you currently have.** It helps to have a mix of loan types. If you have a credit card, an installment loan will even out the credit.

KHEAA is a public, non-profit agency established in 1966 to improve students' access to college. It provides information about financial aid and financial literacy at no cost to students and parents.

KHEAA also helps colleges manage their student loan default rates and verify information submitted on the FAFSA. For more information about those services, visit kheaa.com.

In addition, KHEAA disburses private Advantage Education Loans on behalf of its sister agency, KHESLC. For more information, visit advantageeducationloan.com.

For more information about financial aid and college planning, visit alstudentaid.com.