Understanding Credit Scores

Ever heard your parents or other adults talk about their credit score? A credit score is a three-digit number lenders use to measure your credit risk. The higher the number, the less of a risk you are – and the less you'll pay for credit.

What does that mean for you? It means when you're ready to borrow money for big-time expenses such as a car, college education or a house, you could save hundreds – and maybe even thousands – of dollars in interest by having a high credit score.

Luckily, raising your credit score is possible and well worth the effort. Even if you don't have loans or credit cards at the moment, chances are you'll need to borrow money at some point in the future. So keep these tips in mind as you (and your financial needs) grow!

Check your current score.
Go to AnnualCreditReport.com for a free copy of your credit report. Scores range from 300 to 850. Aim for a score around 700, which is generally considered good, or even higher.

Make payments on time.
If you have a credit card, be sure to always pay your bills on time – even if you can only afford to make the minimum payment.

Avoid closing old accounts.
Part of your credit score comes from how long you've had credit, so the longer a card is open, the higher your score will be (assuming you've been making payments on time and spending only what you can afford, that is!).

Don't open new cards you don't need.
New cards carry 10 percent of your credit score and can bring down the average age of your credit, which lowers your score.

Pay down any existing credit card balances.
Because a portion of your score is determined by how much overall debt you have, it's important to pay down existing debt and keep credit card balances low moving forward. A good rule of thumb, according to creditkarma.com, is to only use 30% of your credit limit. So, if you have a $1,000 limit on your credit card, you should aim to keep your balance at or below $300.