All about credit scores

Credit scores play an important role when you borrow money, so it's wise to get to know what credit scores are and how they work.

What are credit scores?

Credit scores are numbers created by applying mathematical formulas to key pieces of your credit history to calculate your creditworthiness at a moment in time – like a photograph. Companies that design credit scores each use their own complicated mathematical formulas, called scoring models, to create your credit score from the information in your credit report. Factors that make up a typical credit score include the number and type of loan accounts you have, whether you make your payments on time, and your current unpaid debt.

Companies use credit scores to make decisions such as whether to offer a person a mortgage, credit card, auto loan, or other credit product. Credit scores are also used to determine the interest rate a person receives on a loan or credit card, as well as the credit limit they're offered.

Who collects my credit history?

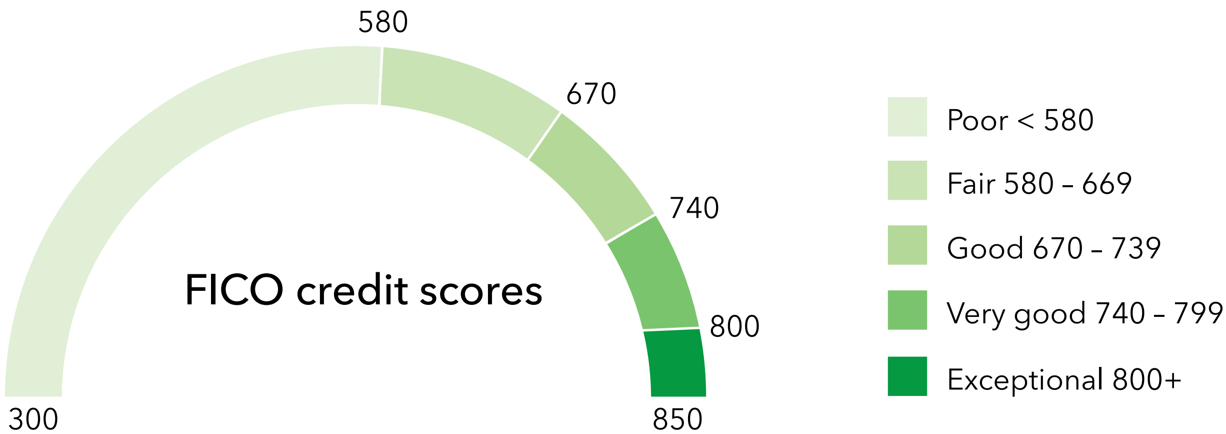
Companies collect consumers' financial and credit information from businesses that furnish it to them. This may include not only information about loans and credit cards, but also things like payment history for rent and utilities. Multiple companies calculate and sell credit scores. Thus, you may have more than one credit score, and the scores may be different from one another. Credit scores may vary as a result of differing scoring models used or information gathered to calculate the scores. Banks, credit unions, credit card companies, and lenders may use credit scores from a range of credit reporting companies.

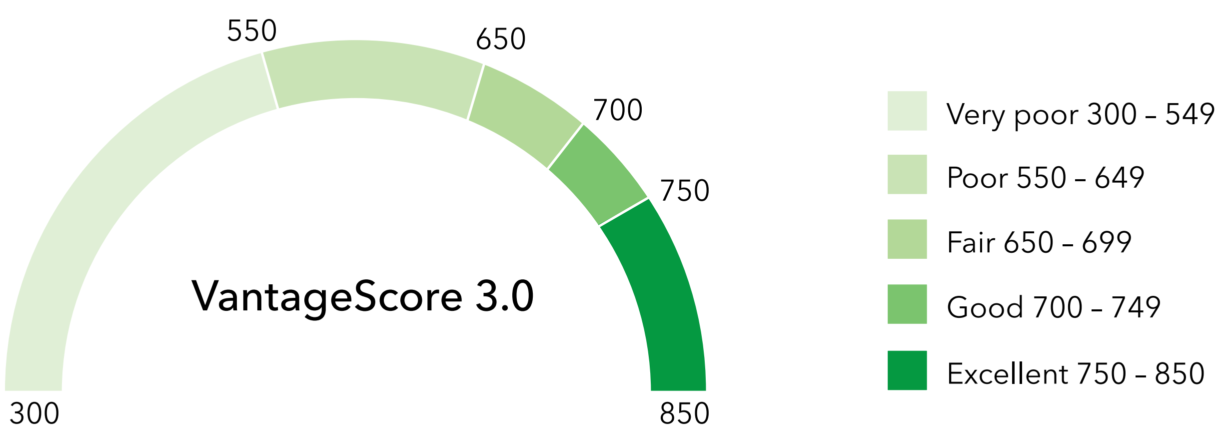
What do credit scores represent?

Credit scores provide a snapshot of a person's creditworthiness. They provide a way for lenders to predict how likely a person is to pay back a loan on time. A higher credit score means you are predicted to be less of a risk. Usually a high credit score makes it easier to qualify for a loan and may result in a better interest rate, but lenders have their own cutoffs to determine eligibility. Most credit scores range from 300 to 850.

FICO (calculated using scoring models designed by Fair Isaac Corporation) and VantageScore (calculated using scoring models designed by VantageScore Solutions) are two of the most commonly used credit scores.

View two different ranges of credit scores:





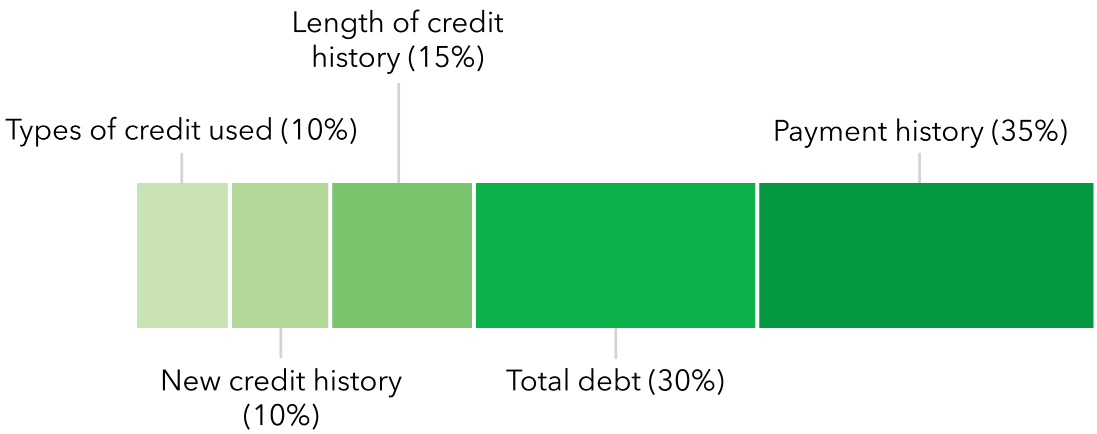
How are credit scores calculated?

Credit scores are calculated based on the information in your credit report. Even though different credit scores have different mathematical formulas, they all use the information from your credit report. So, while some pieces of information in your credit reports may be weighted somewhat differently depending on who is calculating your score, the key is to understand the information in your credit reports. A good rule to live by is to check your credit reports every year through annualcreditreport.com and fix any errors.

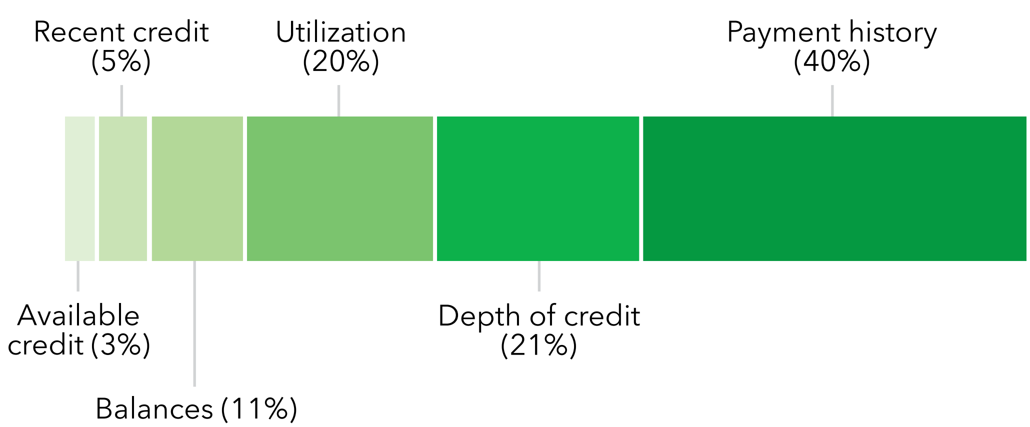
While detailed information about the way that FICO and VantageScore (and other credit score companies) calculate their scores is not public, these companies provide a general sense of what goes into a credit score.

View two credit scoring models:

FICO model



VantageScore model



- **Payment history** tracks whether you are paying your bills on time and as agreed.
- **Total debt, balances, and utilization** look at both total owed as well as how much available credit a person is using.
- **Depth/length of credit history** reflects how long you have had relationships with a creditor(s); the longer your credit history with a lender, the more likely your credit score will increase in this category.
- **New/recent credit** considers all new loans or accounts and includes how many times creditors have requested a person's credit report, which could be an indicator of risk.
- **Types of credit used** refers to a person's credit mix, which includes both credit cards (known as revolving credit) and loans (which can be considered installment credit).

> **Tip**
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> The way you use and repay debt affects your credit score. So, remember that your score can be helpful in tracking and improving your credit use and behavior. Paying loans on time and staying well below your credit limit helps you get and keep good credit.