

Credit Score FAQ: Why You Should Care About Yours

Your credit score affects a lot of important things, from finding a job to whether a lender will offer you a loan. So, understanding the basics about credit scores is a good idea.

Check out these frequently asked questions to learn all about credit scores, and how your credit score could save—or cost—you thousands of dollars or more.

What's a credit score?

It's a number that represents how likely you are to repay a debt based on your credit report. The higher the number the better, and your score will change over time depending on a number of factors. Consistently paying your bills on time is the key to having a high credit score. Pay late and your score could suffer.

How is my credit score different from my credit report?

Think of your credit report as a professor's grade book—containing each individual assignment grade and when you turned it in—while your credit score is your overall grade for the class.

Your credit report is a record of your bill-paying history, both positive and negative. It lists identifying information, employers, creditors and payment history, bankruptcies, judgments, liens, and lawsuits.

What's a FICO score?

A FICO score is a type of credit score developed by Fair Isaac Corporation to determine how likely you are to pay your bills on time.

Is FICO the only game in town?

No. There are two main scoring systems: FICO (Fair Isaac Corp.) and VantageScore.

1. *A FICO score ranges from around 300 to 850.*
Typically, anything higher than around 760 is considered a good credit risk. The average FICO credit score is about 693 (according to <http://www.experian.com> in early 2010).
2. *A VantageScore ranges from 501 to 990.*
It's based on standard grades A to F (A = 901 to 990, B = 801 to 900, C = 701 to 800, D = 601 to 700, and E = 501 to 600).

Be careful—the same score from the two systems may mean different things. For example, a score of 760 from FICO means you're an excellent credit risk, but the same score from VantageScore gives you a grade of "C." So make sure you know which score (FICO or VantageScore) you're viewing.

What's considered a good FICO score?

A FICO score of 720 or higher typically means your credit risk to a lender or business is low. However, in light of the economic downturn, a score of at least 760 may be needed for the best rates on loans and new credit cards.

A FICO score in the range of 660 to 759 is still acceptable to most lenders but your interest rate may be higher.

A FICO score in the range of 620 to 659 indicates you're at higher risk of defaulting on a loan based on your credit history.

If your FICO score is less than 619, you're generally considered a very high risk for default. You'll either be denied credit, or you'll have a much higher interest rate than if you had a higher credit score.

What kinds of things affect my FICO score?

Five variables affect your score:

1. *Payment history* (about 35% of your score). It answers the question, "Do you pay your bills on time?" If you've missed payments in the past, get current and stay current. The longer you pay your bills on time, the higher your score.
2. *Amounts owed to creditors* (about 30% of your score). It answers the question, "Do you owe a lot of money to a lot of people?" If you have high balances on credit cards that are close to their limits, your credit score will suffer.
3. *Length of credit history* (about 15% of your score). It answers the question, "How established is your credit history?" If you're just starting out using credit, your score probably will be lower than someone who has a longer history of paying bills.
4. *New credit* (about 10% of your score). It answers the question, "Are you increasing your debt load?" A flurry of activity and inquiries on your credit report raises suspicion.
5. *Types of credit in use* (about 10% of your score). It answers the question, "Do you have a "healthy mix" of credit?" A healthy mix may include a mortgage, a credit card or two, a personal loan such as a car loan, and perhaps a retail card.

What if I'm just starting out and don't have enough credit or loans to generate a credit history?

Fair Isaac has introduced the *FICO Expansion Score*, based on deposit account records, payday loan repayments, purchases made on payment plans, and other nontraditional data. This score helps people with little or no credit history generate a score based on their unique payment history.

If I apply for credit, will my credit score drop?

According to FICO, if it does, it probably won't drop much.

When you apply for credit, the lender accesses your credit report, creating what is called an inquiry. Multiple inquiries in a short period of time typically are treated as a single inquiry and will have little impact on your credit score. For example, the score counts multiple auto or mortgage inquiries that fall in a typical shopping period as just one inquiry; older versions of the scoring formula count the shopping period as any 14-day span, and newer versions count the shopping period as any 45-day span. Each lender chooses the version of the FICO scoring formula it wants the credit reporting agency to use to calculate your credit score.

Who uses my credit score?

Lenders, primarily. But other users include landlords, cell phone companies, insurance companies, and other businesses. Why? Businesses want to know if you'll pay their bills on time before handing you the keys to an apartment or before you use their cell phone service. They evaluate not only your creditworthiness but your financial responsibility in general.

Potential employers may also check your credit score and payment history as part of the hiring process. Some positions require you to be responsible for certain assets or to handle money. If they discover that you don't pay your bills on time, they may decide you aren't financially responsible and you may not get the job! By law, potential employers have to tell you they are going to check your credit report and must get your written permission.

How can I improve my credit score?

It's simple—pay all your bills on time.

Remember: You can't improve your credit score dramatically in a short time. But responsible actions over time can result in a higher score. Also, keep your balances low on credit card and other revolving accounts. Routinely staying close to the limits on your cards will lower your score.

Is there only one score per person?

No. Lenders may use FICO scores, create their own scoring models, or ask FICO to customize a scoring model for them.

As a result, your credit score can vary by 30 points to 100 points between the three major credit reporting bureaus—Experian, Equifax, and TransUnion. Why? Creditors may not report to all bureaus and the three credit bureaus weigh credit report information differently.

How do I order my credit score, and what does it cost?

You can order one individual score (FICO Standard) directly from FICO for \$19.95 at www.myfico.com/Products/Products.aspx.

Or, order your credit score when you request your free annual credit report from www.annualcreditreport.com or from any of the "big three" credit reporting agencies. Prices vary and can change at any time, so shop around.

The people at your credit union also may be able to provide you with your score and discuss it in relation to your overall credit picture.

Watch out! ... If you search for "credit score" on the Internet, a lot of sites will pop up. Some are reputable, but many are not. Some sell packages of credit products that include not only credit scores but credit reports, credit monitoring services, and identity theft insurance. It's possible that some searches may even lead you to scam artists who try to steal your personal information, such as your Social Security number and other identifying information. Stick with reputable sites such as FICO and the credit reporting agencies.

If I check my credit report, will that lower my credit score?

No. It's a good idea to check your credit report regularly (www.annualcreditreport.com) for accuracy and for signs of fraud. In fact, maintaining an accurate credit report is part of responsible credit management.

Useful resources:

Fair Isaac Corp. www.fairisaac.com

Experian www.experian.com

Equifax <http://www.equifax.com>

TransUnion www.transunion.com

Federal Trade Commission www.ftc.gov/freereports

VantageScore <http://www.vantagescore.com/consumers/faqs/>