



Understanding Your Credit Score

The Five Things That Count

Scores are part of the lending decision

What do lenders look at when deciding whether to approve a loan? Typically, lenders making almost any kind of credit decision will look at a variety of types of information, including one or more credit scores. While there are many kinds of credit scores, the most frequently used are credit bureau risk scores developed by Fair, Isaac. These are commonly known as FICO® scores, although they have different names at each of the national credit reporting agencies.

A score is a number that tells a lender how likely an individual is to repay a loan, or make credit payments on time. When a lender requests a credit report and score from a credit reporting agency, the score is calculated by a "scorecard" or scoring model — a mathematical equation that evaluates many types of information from your credit report at that agency. By comparing this information to the patterns in thousands of past credit reports, scoring identifies your level of credit risk.

Types of information FICO scores consider

Listed below are the five main categories of information on a credit report that Fair, Isaac scores evaluate, along with their general level of importance. Within these categories is a complete list of the information that goes into a FICO score. Please note that:

- **A score takes into consideration all these categories of information, not just one or two.** No one piece of information or factor will determine your score.
- **The importance of any factor depends on the overall information in your credit report.** For some people, a given factor may be more important than for someone else with a different credit history. In addition, as the information in your credit report changes, so does the importance given any one factor in determining your score. Thus, it's impossible to say exactly how important any single factor is in determining your score — even the levels of importance shown are for the general population, and will be slightly different for different credit profiles. What's important is the *mix* of information, which varies from person to person, and for any one person over time.
- **Your score only looks at information in your credit report.** Lenders look at many things when making a credit decision, including your income and the kind of credit you are applying for. However, your FICO score does not reflect these facts, as it only evaluates your credit report at the credit



reporting agency.

- **Your score considers both positive and negative information in your credit report.** Late payments will lower your score, but having a good record of making payments on time will raise your score.
- **Your score does not consider your ethnic group, religion, gender, marital status and nationality.** These are, in fact, prohibited from use in scoring by US law.

| [FICO SCORE FACTORS](#) |

Payment History

What is your track record?

APPROXIMATELY 35% OF YOUR SCORE IS BASED ON THIS CATEGORY

The first thing any lender would want to know is whether you have paid past credit accounts on time. This is also one of the most important factors in a credit score. However, late payments are not an automatic "score-killer." An overall good credit picture can outweigh one or two instances of, say, late credit card payments. By the same token, having *no* late payments in your credit report doesn't mean you will get a "perfect score." Some 60-65% of credit reports show no late payments at all — your payment history is just one piece of information used in calculating your score.

Your score takes into account:

- **Payment information on many types of accounts.** These will include credit cards (such as Visa, MasterCard, American Express and Discover), retail accounts (credit from stores where you do business, such as department store credit cards), installment loans (loans where you make regular payments, such as car loans), finance company accounts and mortgage loans.
- **Public record and collection items — reports of events such as bankruptcies, judgments, suits, liens, wage attachments and collection items.** These are considered quite serious, although older items will count less than more recent ones.
- **Details on late or missed payments and public record and collection items — specifically, how late they were, how much was owed, how recently they occurred and how many there are.** A 30-day late payment is not as risky as a 90-day late payment, in and of itself. But recency and frequency count too. A 30-day late payment made just a month ago will count more than a 90-day late payment from five years ago. Note that closing an account on which you had previously missed a payment does not make the late payment disappear from your credit report.
- **How many accounts show no late payments.** A good track record on most of your credit accounts will increase your credit score.

| [FICO SCORE FACTORS](#) |



Amounts Owed

How much is too much?

APPROXIMATELY 30% OF YOUR SCORE IS BASED ON THIS CATEGORY

Having credit accounts and owing money on them does not mean you are a high-risk borrower with a low score. However, owing a great deal of money on many accounts can indicate that a person is overextended, and is more likely to make some payments late or not at all. Part of the science of scoring is determining how much is *too much* for a given credit profile.

Your score takes into account:

- **The amount owed on all accounts.** Note that even if you pay off your credit cards in full every month, your credit report may show a balance on those cards. The total balance on your last statement is generally the amount that will show in your credit report.
- **The amount owed on all accounts, and on different types of accounts.** In addition to the overall amount you owe, the score considers the amount you owe on specific types of accounts, such as credit cards and installment loans.
- **Whether you are showing a balance on certain types of accounts.** In some cases, having a very small balance without missing a payment shows that you have managed credit responsibly, and may be slightly better than no balance at all. On the other hand, closing unused credit accounts that show zero balances and that are in good standing will not generally raise your score.
- **How many accounts have balances.** A large number can indicate higher risk of over-extension.
- **How much of the total credit line is being used on credit cards and other "revolving credit" accounts.** Someone closer to "maxing out" on many credit cards may have trouble making payments in the future.
- **How much of installment loan accounts is still owed, compared with the original loan amounts.** For example, if you borrowed \$10,000 to buy a car and you have paid back \$2,000, you owe (with interest) more than 80% of the original loan. Paying down installment loans is a good sign that you are able and willing to manage and repay debt.

| [FICO SCORE FACTORS](#) |

Length of Credit History

How established is yours?

APPROXIMATELY 15% OF YOUR SCORE IS BASED ON THIS CATEGORY

In general, a longer credit history will increase your score. However, even people with short credit histories may get high scores, depending on how the rest of the credit report looks.



Your score takes into account:

- **How long your credit accounts have been established, in general.** The score considers both the age of your oldest account and an average age of all your accounts.
- **How long specific credit accounts have been established.**
- **How long it has been since you used certain accounts.**

| [FICO SCORE FACTORS](#) |

New Credit

Are you taking on more debt?

APPROXIMATELY 10% OF YOUR SCORE IS BASED ON THIS CATEGORY

People tend to have more credit today and to shop for credit — via the Internet and other channels — more frequently than ever. Fair, Isaac scores reflect this fact. However, research shows that opening several credit accounts in a short period of time does represent greater risk — especially for people who do not have a long-established credit history. This also extends to requests for credit, as indicated by "inquiries" to the credit reporting agencies — an inquiry is a request by a lender to get a copy of your credit report.

The Fair, Isaac scores distinguish between searching for many new credit accounts and rate shopping, which is generally not associated with higher risk. In part, this is handled by treating a grouping of inquiries — which probably represents a search for the best rate on a single loan — as though it was a single inquiry. Your score takes into account:

- **How many new accounts you have.** The score looks at how many new accounts there are by type of account (for example, how many newly opened credit cards you have). It also may look at how many of your accounts are new accounts.
- **How long it has been since you opened a new account.** Again, the score looks at this by type of account.
- **How many recent requests for credit you have made, as indicated by inquiries to the credit reporting agencies.** Note that if you order your credit report from a credit reporting agency — such as to check it for accuracy, which is a good idea — the score does not count this. This is considered a "consumer-initiated inquiry," not an indication that you are seeking new credit. Also, the score does not count it when a lender requests your credit report or score in order to make you a "pre-approved" credit offer, or to review your account with them, even though these inquiries may show up on your credit report.
- **Length of time since credit report inquiries were made by lenders.**
- **Whether you have a good recent credit history, following past payment**



problems. Re-establishing credit and making payments on time after a period of late payment behavior will help to raise a score over time.

| [FICO SCORE FACTORS](#) |

Types of Credit in Use

Is it a "healthy" mix?

APPROXIMATELY 10% OF YOUR SCORE IS BASED ON THIS CATEGORY

The score will consider your mix of credit cards, retail accounts, installment loans, finance company accounts and mortgage loans. It is not necessary to have one of each, and it is not a good idea to open credit accounts you don't intend to use. The credit mix usually won't be a key factor in determining your score — but it will be more important if your credit report does not have a lot of other information on which to base a score.

Your score takes into account:

- **What kinds of credit accounts you have, and how many of each.** The score also looks at the total number of accounts you have. For different credit profiles, how many is too many will vary.

| [FICO SCORE FACTORS](#) |

Using Score Reason Codes to Understand Your Score

When a lender receives your Fair, Isaac credit bureau risk score, up to four "score reason codes" are also delivered. These explain the top reasons why your score was not higher. They say things like "Number of accounts with delinquency." If the lender rejects your request for credit, these reason codes can help the lender tell you why your score wasn't higher.

These reason codes are more helpful than the score itself in helping you determine whether your credit report might contain errors, and how you might improve your score over time. However, if you already have a high score (for example, in the mid-700s) some of the reason codes may not be very helpful, as they may be marginal factors related to the last three categories above.

| [FICO SCORE FACTORS](#) |

A Note About Fair, Isaac Scores

Fair, Isaac credit bureau risk scores are available to lenders through the major credit reporting agencies (Experian, Equifax and Trans Union). The score from each credit reporting agency considers only the data in your credit report at that agency. This is why you may have a different score from each of the credit reporting agencies.

Fair, Isaac credit bureau risk scores provide the best risk guide available based solely on credit report data. The higher the score, the lower the risk. There are also other types of scores available to lenders. But no score says whether a specific individual will be a "good" or "bad" customer. And while many lenders use FICO scores to help them make lending decisions, each lender has its own strategy,

including the level of risk it finds acceptable for a given credit product. There is no single "cutoff score" used by all lenders.

FICO credit bureau risk scores are calculated by the credit reporting agency, using Fair, Isaac's scoring models, when the score is requested by a lender. Only the credit reporting agencies have the data needed to calculate a FICO score. Fair, Isaac can't access or correct data at the credit reporting agencies, or calculate a score. To get a copy of your credit report or to correct information in the report, contact the credit reporting agency directly.