CREDIT BASICS

About your credit score

Your credit score influences the credit that’s available to you and the terms (interest rate, etc.) that lenders offer you. It’s a vital part of your credit health.

When you apply for credit – whether for a credit card, a car loan, or a mortgage – lenders want to know what risk they'd take by loaning money to you. When lenders order your credit report, they can also buy a credit score that’s based on the information in the report. A credit score helps lenders evaluate your credit report because it is a number that summarizes your credit risk, based on a snapshot of your credit report at a particular point in time.

Credit scores are often called “FICO Scores” because most credit bureau scores used in the U.S. are produced from software developed by FICO (Fair Isaac and Company).

Credit scores range from 300 to 850. That credit score is calculated by a mathematical equation that evaluates many types of information from your credit report, at that agency. By comparing this information to the patterns in hundreds of thousands of past credit reports, the credit score estimates your level of future credit risk.

The credit score has a different name at each of the credit reporting agencies. All of these scores are developed using similar methods.

What makes a “good” score?

Credit scores have a 300–850 score range. The higher the score, the lower the risk. But no score says whether a specific individual will be a “good” or “bad” customer.

While many lenders use credit 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 and there are many additional factors that lenders use to generate your credit score

Reasons for your credit score

When a credit score is calculated from your credit report, the credit reporting agency will also provide up to five reasons for that particular score. Generally, reasons are negative because it is the reasons why the credit score isn’t higher. For a very high score, it can include those positive reasons contributing to that score.

The minimum required to calculate a credit score

For your credit score to be calculated, your credit report with the bureau from which you want your score must contain enough information—and enough recent information—on which to base your credit score. Generally, that means you must have at least one account that has been open for six months or longer, and at least one account that has been reported to the credit reporting agency within the last six months.

3 different credit scores

You have three credit scores, one for each of the three credit bureaus: Equifax, TransUnion and Experian. Each credit score is based on information the credit bureau keeps on file about you.

The credit score from each credit reporting agency considers only the data in your credit reports at that agency. Your credit score may be different at each of the main credit reporting agencies. If your current scores from the credit reporting agencies are different, it's probably because the information those agencies have on you differs. If your information is identical at all three credit reporting agencies, each credit score should be very close.

Your credit score will change over time

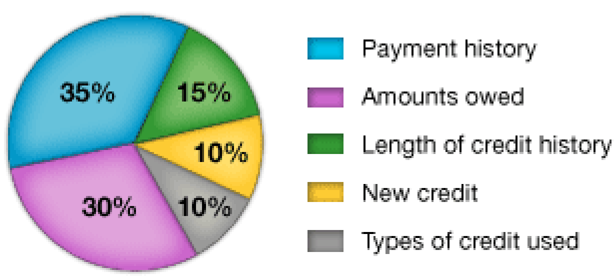
As the information in your credit report changes, so will any new credit score based on your credit report. So your credit score from a month ago is probably not the same score a lender would get from the credit reporting agency today.

How my credit score is calculated

The credit score is calculated from several different pieces of credit data in your credit report. This data is grouped into five categories as outlined below. The percentages in the chart reflect how important each of the categories is in determining how your credit score is calculated.

Your credit score considers both positive and negative information in your credit report. Late payments will lower your credit score, but establishing or re-establishing a good track record of making payments on time will raise your score.

How a credit score breaks down



These percentages are based on the importance of the five categories for the general population. For particular groups—for example, people who have not been using credit long—the relative importance of these categories may be different.

Importance of categories varies per person

Your credit score is calculated based on these five categories. For some groups, the importance of these categories may vary; for example, people who have not been using credit long will be factored differently than those with a longer credit history.

The importance of any one factor in your credit score calculation depends on the overall information in your credit report. For some people, one factor may have a larger impact that it would for someone with a much different credit history. In addition, as the information in your credit report changes, so does the importance of any factor in determining your credit score.

Therefore, it's impossible to measure the exact impact of a single factor in how your credit score is calculated without looking at your entire report. Even the levels of importance shown in the credit score chart are for the general population, and will be different for different credit profiles.

Your credit score only looks at information in your credit report

Your credit score is calculated from your credit report. However, lenders look at many things when making a credit decision including your income, how long you have worked at your present job and the kind of credit you are requesting.

Payment history (35%)

The first thing any lender wants to know is whether you've paid past credit accounts on time. This is one of the most important factors in a credit score. A few late payments are not an automatic "score-killer." An overall good credit picture can outweigh one or two instances of late credit card payments.

Late payment behavior in the past can be overcome; re-establishing credit and making payments on time will raise a credit score over time.

However, having no late payments in your credit report doesn't mean you'll get a "perfect score." Your payment history is just one piece of information used in calculating your credit score.

Amounts owed (30%)

Having credit accounts and owing money on them does not necessarily mean you are a high-risk borrower with a low credit score.

However, when a high percentage of a person's available credit is been used, this can indicate that a person is overextended, and is more likely to make late or missed payments.

Part of the science of scoring is determining how much is too much for a given credit profile. Your credit score takes into account several factors.

Even if you pay off your credit cards in full each 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.

In addition to the overall amount you owe, your credit score considers the amount you owe on specific types of accounts, such as credit cards and installment loans.

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 carrying no balance at all. Having a low credit utilization ratio can be better than having a high one, or none at all. For example, closing unused credit accounts that have zero balances and are in good standing will not raise your credit score.

A larger number of accounts with amounts owed can indicate higher risk of over-extension.

Someone who is close to "maxing out" several credit cards has a high credit utilization ratio and may have trouble making payments in the future.

For example, if you borrowed $10,000 to buy a car and you have paid back $2,000, you still owe (with interest) more than 80% of the original loan. Paying down installment loans is a good sign that you're able and willing to manage and repay debt.

Length of credit history (15%)

In general, a longer credit history will increase your credit score. However, even people who haven't been using credit long may have a high credit score, depending on how the rest of the credit report looks.

Your credit score takes into account:

- how long your credit accounts have been established, including the age of your oldest account, the age of your newest 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

Types of credit in use (10%)

The score will consider your mix of credit cards, retail accounts, installment loans, finance company accounts and mortgage loans. It's not necessary to have one of each, and it's 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 credit 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.

Having credit cards and installment loans with a good payment history will raise your credit score. People with no credit cards tend to be viewed as a higher risk than people who have managed credit cards responsibly.

Do you have experience with both revolving credit and installment type accounts, or has your credit experience been limited to only one type?

Your credit score also looks at the total number of accounts you have. How many is too many will vary depending on your overall credit picture.

A closed account will still show up on your credit report, and its history will be considered by your credit score.

New credit (10%)

People tend to have more credit today and shop for new credit more frequently than ever. Your credit score reflects this reality. However, research shows that opening several new credit accounts in a short period of time represents greater risk - especially for people who don't have a long credit history. Your credit score takes into account several factors, including how you shop for credit.

Checking your credit report won’t affect your credit score, as long as you order your credit report directly from the credit reporting agency.

Your credit score looks at how many new accounts you have by type of account. It also may look at how many of your accounts are new accounts.

If you have been managing credit for a short time, don’t open a lot of new accounts too rapidly. New accounts will lower your average account age, which will have a larger effect on your credit score if you don’t have a lot of other credit information. Even if you have used credit for a long time, opening a new account can still lower your credit score.

An inquiry is when a lender makes a request for your credit report or score. Inquiries remain on your credit report for two years, although your credit score will only consider inquiries from the last 12 months. Generally, more inquiries translate into a greater credit risk. However, inquiries usually have a small impact. Some types of inquiries are ignored completely

Your credit score may consider the time that has passed since you opened a new credit account, for specific types of accounts.