Credit Score Breakdown

Your credit score is calculated by weighing information in your credit report.

Although there are several scoring methods, most lenders use the **FICO** method from **Fair Isaac Corporation**. Each of the three major credit bureaus (Experian, Equifax and TransUnion) worked with Fair Isaac in the early 1980s to come up with the scoring method.

A credit score is determined much like a grade in school. Consider how a teacher calculates grades by taking scores from tests, homework, attendance and anything else they want to use, weighing each one according to importance to come up with a final, single-number score. It's the same for a credit score. But instead of using the scores from pop quizzes and papers, it uses the information in your credit report.

The number ranges from 300 to 850. Although the exact formula for calculating the score is proprietary information and owned by Fair Isaac, here's an approximate breakdown of how it is determined:

- **35 percent** of the score is based on your payment history. This makes sense since one of the primary reasons a lender wants to see the score is to find out if (and how promptly) you pay your bills. The score is affected by how many bills have been paid late, how many were sent out for collection and any bankruptcies. When these things happened also comes into play. The more recent, the worse it will be for your overall score.

- **30 percent** of the score is based on outstanding debt. How much do you owe on car or home loans? How many credit cards do you have that are at their credit limits? The more cards you have at their limits, the lower your score will be. The rule of thumb is to keep your card balances at 25 percent or less of their limits.

- **15 percent** of the score is based on the length of time you've had credit. The longer you've had established credit, the better it is for your overall credit score. Why? Because more information about your past payment history gives a more accurate prediction of your future actions.

- **10 percent** of the score is based on new credit. Opening new credit accounts will negatively affect your score for a short time. This category also penalizes **hard inquiries** on your credit in the past year. Hard inquiries are those you've given lenders permission for, as opposed to **soft inquiries**, which include looking at your own score and have no effect on the score. However, the score interprets several hard inquiries within a short amount of time as one to account for the way people shop around for the best deals on a loan.

- **10 percent** of the score is based on the types of credit you currently have. It will help your score to show that you have had experience with several different kinds of credit accounts, such as revolving credit accounts and installment loans.

This information is compared to the credit performance of other consumers with similar histories and profiles. The three major credit bureaus each have their own version of the credit score, all of which are based on the original Fair Isaac scoring method. Equifax has the **BEACON** system, TransUnion has the classic **FICO Risk Score**system, and Experian has the **Experian/Fair Isaac RISK** system. Some lenders also have their own scoring methods, which may include information such as your income or how long you've been at the same job.

When it's all said and done, just how important is this magic number? And what does it mean for your interest rates?

Save typing ...

Use your smartphone "QR CODE" scanning app to scan the code on the left and George's contact information will be automatically transferred directly to your phone.