You may not realize it, but there is a three-digit number that plays an important role in your life. This number is your credit score and it summarizes the information in your credit report.

Credit scores typically range from a low score of 300 to a high score of 800 or above. Lenders and others use this snapshot of your credit history to assess your creditworthiness and the likelihood that you will pay your bills and repay outstanding loans.

Credit scores are derived from your credit report—a detailed record of your credit history that lists how you've paid your bills and managed your credit over the years.

When you apply for credit, you give creditors permission to access your credit score. This allows creditors to make informed decisions about:

- ***whether to do business with you***
- ***how much to charge you***

Credit scores can speed up the credit approval process, making it possible to get "instant credit" when you need it.

You can easily check your own credit score for about $15. Keeping an eye on your score is important because you will know what your score is, how to interpret it and how to maintain or improve it. *(You can get free credit reports without scores each year. See "Get Your Credit Score.")*

Your Credit Score Matters

Virtually all lenders—from retailers and credit card issuers to auto dealers and mortgage companies—check your credit score when you apply for credit. The higher your score, the more likely it is your credit request will be approved.

Your credit score will also influence the amount of credit you will be granted and the interest rate the lender will charge you. This means you will know how much it will cost to borrow money.

The higher your score, the lower your interest rate. Even a small difference in the rate on an auto or home loan can mean a savings of hundreds or thousands of dollars in finance charges over the life of the loan. *(See "A Good Score Pays")*

Lenders check your credit score before they contact you with an offer of new credit. Often, your existing creditors will review your score when they make decisions whether to change your interest rate or credit limit.

Even if you're not shopping for credit, a good score is important. Many landlords, phone companies and employers assess the risk of applicants by checking credit scores.

The insurance industry uses a credit-based insurance risk score to determine whether to provide insurance and how much of a premium to charge. (Some states have passed laws to restrict this practice.)

Types of Credit Scores

Although there are several credit scoring systems, the best known and most widely used is the FICO® score, named for Fair Isaac Corporation, the company that developed it.

Credit reporting agencies, the companies that compile consumer credit reports, provide credit scores to lenders and consumers. Each of the three national credit reporting agencies sells FICO scores to lenders under different brand names. You can obtain your FICO credit score from Fair Isaac's MyFICO web site. *(For the names of the credit reporting agencies and information on how to buy your score, see "Obtain Your Credit Score.")*

The three credit reporting agencies also have developed their own joint scoring model, called VantageScore. This score uses a different scoring range than FICO and assigns a "report card" grade of A, B, C, D or F. VantageScore is not in wide use among lenders.

Additional scoring models have been developed by these credit reporting agencies, lenders and other companies.

Credit scores are based on information the credit reporting agencies collect about you. This information comes from creditors, who report things such as your payment behavior, your balance and your credit limit. It also comes from public records, which reveal if you have filed for bankruptcy, owe money as the result of a legal judgment against you or owe past-due taxes.

A Good Score Pays

Paying your bills on time and managing your credit wisely usually results in a good credit score.

Take Joe and Sally, who each want to buy a $300,000 home loan with a 20% down payment.

Joe has a good FICO score of 775 and Sally has a poor score of 630.

For a 30-year, fixed-rate mortgage Joe would pay $1,795 per month (5.98% interest), while Sally would pay $2,057 (7.29% interest).

Each year, Sally would pay $3,144 more than Joe for the same mortgage.

Your scores will vary from source to source because:

- The formula being used is different.
- There are differences in the underlying information being used. (Not all lenders send customer information to all three credit reporting agencies.)

A lender considering your loan or credit application may look at only one score or, like many mortgage lenders, a "tri-merge" credit report plus FICO scores from each of the three credit reporting agencies. Lenders buy tri-merge reports from specialty companies that verify and merge the information from various credit reporting agencies.

What's in a Credit Score?

Your credit score is a snapshot of your credit report at a single point in time. It changes frequently, each time a creditor reports your most recent activity. (Most creditors report every 30 days.)

Every credit scoring formula adds and subtracts points based on the information in your credit report. Your FICO score generally is based on:

- Payment history (35%): Reflects on-time payments and paid-off debts as well as late payments, debt collection accounts, tax liens, legal judgments, bankruptcies and other negative items.
- Amount owed (30%): Reflects all account balances as well as the difference between your outstanding debts and your available credit.
- Length of credit history (15%): Reflects how long you have had your accounts—the longer the better.
- New credit (10%): Reflects recent "inquiries" from businesses when you apply for credit and new accounts you have opened.
- Types of credit (10%): Reflects the combination of accounts you hold. (For example, a credit card from a major bank may have more influence on your score than a department store card. Car and home loans if paid on time help your score.)

Your FICO score does not count your income or assets, occupation, title, employer or employment history, age, ZIP code or homeownership status. However, lenders may consider these as well as other factors when deciding whether to grant you credit. For example, other factors lenders consider are the size of your down payment and the value of the home or other property you want to buy.

To prevent credit discrimination, all credit scoring models by law exclude race, color, religion, national origin, sex, marital status and public assistance benefits.

Interpret Your Score

Your score can vary depending on the credit-scoring model used by the lender.

A score of 810 on the FICO scale of 300 to 850 would be outstanding and generally would insure you get the best interest rates. Most people earn FICO scores in the 600s and 700s; scores below 620 are often considered high risk. To learn more, visit the MyFICO website. *(See "Obtain Your Credit Score.")*

A score of 810 on the little-used VantageScore scale of 501 to 990 would grade you "B." To learn more, visit VantageScore website (www.vantagescore.com).

Improve Your Credit Score

Although creditors regularly report information to the credit reporting agencies, there is no quick fix. Your scores will improve gradually if you pay your creditors on time and improve the way you handle credit. As they age, reported credit problems affect your score less and less—so your score may improve over time.

DO:

- Pay your bills on time.
- Keep outstanding credit balances low relative to the amount of credit available to you. (Try to use no more than half of your available credit limit.)
- Pay down debt.
- Make up any past-due payments and stay current. (Paying off a tax lien or collection account does not remove it from your credit report, but it will appear as a paid debt.)
- Open new credit accounts only when you need them (unless you're trying to establish credit).
- Limit creditor inquiries (requests for your credit report) by doing your shopping for a loan within 30 days. This should count as a search for a single loan instead of an attempt to open many new credit lines.
- Establish credit. If necessary, you can start with a credit card secured by your bank account. To build a good credit history you should occasionally and sparingly use your available credit, but you do not need to carry a balance from month to month.
- Monitor your credit reports for accuracy and correct any errors. Getting inaccurate negative information removed is the only way to make an immediate, significant improvement to your score.
- Ask anyone who denies your credit application because of a low score how you can improve it.
- Be wary of anyone who claims they can repair your credit or increase your score for a fee. In general, negative but accurate information remains on your credit report for seven to 10 years. No one can remove accurate information from a credit file before its reporting life ends. You can have inaccurate information removed yourself—free.

DON'T:

- Charge up to your credit limit.
- Open a lot of new credit accounts in a short period.
- Close your oldest account first, even it it's an unused account. If you do this, it may make your credit history appear shorter when the closed account is eventually removed from your credit file, and your outstanding debt becomes a greater portion of your available credit.
- Worry that negative activity in your past will damage your score forever. In credit scores, recent activity weighs more heavily than older information.

Avoid tricky offers

Scores are offered elsewhere, but many free score offers require you to buy services for credit monitoring and identity theft prevention. If you don't cancel in time, you might be charged in full when the free trial ends. Carefully read all the fine print to learn how to cancel before the paid service begins.

Obtain Your Credit Score

You can buy your credit score anytime.

Every 12 months you can request a free *credit report* from each of the three major credit reporting agencies. The free reports do not contain your credit score, but when you order a free credit report, you can purchase your score at the same time.

Get your free credit reports online at the Annual Credit Report website (annualcreditreport.com), where you can also find a mail-in order form, or by calling 877-322-8228.

If your mortgage loan application is denied based on a credit score, the lender must provide your score if you ask for it.

For about $15, you can purchase your credit score anytime from the MyFICO website or online or by phone from any of the three credit reporting agencies. Your credit score comes with information about key factors that affect the score.

MyFICO
www.myfico.com

Equifax
(800) 685-1111
www.equifax.com

Experian
(888) 397-3742
www.experian.com

TransUnion
(800) 888-4213
www.transunion.com

Further Information and Assistance

Federal Trade Commission (FTC)
Phone: 877-382-4357
Web site: www.ftc.gov

National Foundation for Credit Counseling
Phone: 800-388-2227
Web site: www.nfcc.org

Consumer Action
www.consumer-action.org

221 Main Street, Suite 480
San Francisco, CA 94105
415-777-9635
TTY: 415-777-9456
hotline@consumer-action.org

523 W. Sixth Street, Suite 1105
Los Angeles, CA 90014
213-624-8327

Chinese, English and Spanish spoken

VISA whatsmyscore.org

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Understanding Your Credit Score

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