What is my Credit Score?

We've all heard so much in recent years about "credit scores." But, what are they and how are they used?

A credit score is an empirically derived, statistical method of assessing risk. In other words, it's a way for credit reporting agencies to assign a numerical number to your credit worthiness. This number is used to predict the relative likelihood that an individual will repay a credit obligation, such as a mortgage loan or automobile.

Your credit score is based on information in your credit report, such as:

- Past payment behavior – current and historical delinquencies
- Level of indebtedness – outstanding debt balances, both in terms of dollars owed and percent of available credit
- Length of credit history
- Pursuit of new credit – generally these are called inquiries and are less important than some of the other categories

Your credit score is not based on factors prohibited under the Equal Credit Opportunity Act, such as race, age, gender, religion, national origin or marital status. Other excluded items include income, employment and where you live.

The two most common models for credit scoring are:

- The MDS Bankruptcy Score – scores range from about 0 to 1300 with the higher the score the higher the chance of default
- The FICO Score – scores range from 300 to 850 with the higher the score the lower the risk of default

Each of the three major credit repositories can produce a FICO score based on credit information in its files and each repository markets FICO scores under its own trade name:

- Equifax calls it the Beacon score
- TransUnion calls it the Empirica score
- Experian calls it the Experian/FICO score

There is no legal requirement for the lender to reveal a credit score to an applicant. But, if the application is denied, the lender must reveal the reason(s) for that denial. While you can improve your future score, it is unlikely that any single action you take will have a large impact on your score immediately. That's because your score reflects your credit pattern over time.

With this in mind, there are things you can do now that will improve your score in the future:

- Most importantly, pay your bills on time. Delinquent payments and collections can have a major negative impact on your score. As delinquencies get older and you pay all other obligations on time, the delinquent information has less impact.
- Pay down your balances. High outstanding debt can affect your score.
- Apply for new credit sparingly. "Shopping" for credit can have an adverse effect on your score. Support good credit habits like paying bills on time, using revolving debt responsibly, and avoiding a large and quick build-up of new credit.

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