Your Credit Score

A credit score is intended to be a snapshot or summary of your credit history. It is produced with a computer model created most often by Fair, Isaac & Co. (or FICO) leading to the somewhat generic term "FICO score". A low score can mean you won't get a credit card or loan or that, if you do, you will pay a higher interest rate. Some lenders use what is called risk-based pricing at the point of origination, which means that the lender instantly approves or denies your application using your credit score and other information to set the price for your loan.

While we don't know exactly how a credit score is determined, we do know that the following items are always considered important:

Payment History (35%)

Your score is negatively affected if you have paid bills late, had an account sent to collection or declared bankruptcy. If you charge up that already outstanding card, they figure that you may not have enough money to pay their bills. The more recent the problem, the lower your score—a 30-days late payment today hurts more than a bankruptcy five years ago.

Outstanding Debt (30%)

If the amount you owe is close to your credit limit, it is likely to have a negative effect on your score. A low balance on two cards is better than a high balance on one.

Length of Your Credit History (15%)

The longer your accounts have been open the better.

Types of Credit in Use (10%)

Loans from finance companies generally lower your credit score.

Recent Inquiries (10%)

If you have recently applied for many new accounts, this will negatively affect your score. Among the items not considered are age, race, gender, education, national origin, marital status and receipt of public assistance.

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The Range of Scores

Credit scores range from 400 to 900, with the average around 700. According to the model, as your score increases, your risk of default decreases.

Industry experience shows a direct correlation between low scores and high default rates. This means that you may have a hard time convincing a creditor to make you an affordable loan (or any loan at all) if your score is far below average.

But just as your credit history can vary from credit bureau to credit bureau, so can your credit scores. It is possible to have a high score with one credit bureau and a low credit score with another, just as you might have a clean credit history with one bureau and a muddied record with another.

Wide-ranging credit scores are rare, although some lenders admit to seeing borrowers with scores that vary by 100 points or more. To combat this, a lender usually uses the middle score, but that can be of little comfort if you have scores of 550, 570 and 700 and the interest rate for a borrower with a score of 570 is two points higher than the rate for a borrower who scores 700. Narrow ranges are more typical. For example, a person with good credit might have scores something like 685, 702 and 710.

Creditors are not required to tell you your credit score, nor does your credit report show your score.

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