



Financial Education Resources

What is My Credit Score?

A credit score is a three-digit number that represents your entire credit history. Credit scores are designed to help predict how risky you will be as a borrower and what your chances are of making good on loans and other financial obligations. The scoring system analyzes how you manage each piece of credit (such as credit card accounts, mortgages or home equity loans, car loans, school loans and other debt), and then calculates your credit score based on how you've handled your debts over time.

Who invented credit scoring?

Fair Isaac was the first company to start using credit scoring on a national scale and its model, the FICO score, is the most widely used version. The scale runs from 300 (poor) to 850 (perfect), and the median score is about 723, meaning that half of consumers fall above and half fall below that mark.

How is a credit score calculated?

Different companies use different formulas to come up with a credit score. While all the formulas look at roughly the same information (things like your outstanding debts, whether you pay on time, whether you carry a balance), one formula may give more weight to certain factors than others, so different companies could assign you different credit scores.

With a FICO score, the most widely used model, these are the components that go into the calculation of your credit score:

Payment history: 35%

Amounts owed: 30%

Length of credit history: 15%

New credit: 10%

Types of credit used: 10%

Source: MyFICO.com

Federal law requires that these scoring models be “empirically derived and statistically sound.” So, when calculating your credit score, companies are not permitted to use certain factors, such as your marital status, religion, sex, address, health information or race to compute your credit score.



How high does my credit score need to be for me to buy a house or get a loan?

Generally speaking, the lower your credit score, the higher the interest rate you'll have to pay to borrow money. The point at which a lender simply won't make a home loan varies from lender to lender.

To get a loan at going market rates (dubbed a "prime rate" loan), you want to have a score in the high 600s or above. The higher your score, the more lenders you'll have competing for your business—and the more likely it is that you'll be offered better rates and terms.

If your score falls below the high 600s, you end up in what lenders call the "sub-prime" category. You can still get a loan, but as a sub-prime borrower, you will be offered higher interest rates and will probably see less favorable terms on your loan. In addition, not every lender will make sub-prime loans, so you may have a smaller pool of choices.

How can I raise my score (and keep it high)?

When it comes to raising or maintaining your credit score, one of the most important things you can do is pay all your bills on time. If you can pay your bills in full and avoid carrying balances on your credit cards, your credit score is likely to increase.

But there are a couple of little-known "secrets" that can trip people up:

Inquiries: When you apply for credit, the lender pulls your file. That's called an inquiry and it will be recorded on your credit history. Too many inquiries within a short period of time may have a negative affect on your credit history and score. The reason: If you're applying for credit, it means you could be accumulating more debt. And from a payback standpoint, taking on more debt could mean that you'll be less able to make your other payments on time. So if you're planning for a big purchase (like a home or a car), keep excess inquiries off your credit history by not applying for other loans or opening up credit accounts while you're in the process of shopping for the loan for that purchase. And when you're shopping for that home or car loan, make all your applications within a two-week period. Then all the inquiries will count as one (as opposed to multiple inquiries), with only a five-point hit to your credit score.

Due dates: The "pay by" date is the date by which your payment must be received. When you're paying your bills, be sure to allow sufficient time for mailing and processing to avoid a late fee. You may want to consider other payment options, such as online payments or pre-authorized debit, which are fast and free. Plus, you save money on postage.



Credit balances: High balances are bad for your credit score. If you're carrying debt, creditors reason that you can't pay it (otherwise, you would have). And the closer you come to that credit limit, the more it appears that you're struggling financially. So if you're looking to raise your credit score, keep your balances to just a small amount of your available credit.