What Is a Credit Score?

Credit scores influence the credit that is available and the terms (e.g. interest rate) that lenders may offer. It's a vital part of credit health.

When a consumer applies for credit—whether for a credit card, mortgage or an auto loan—lenders want to know what risk they would take by loaning money. When lenders order a credit report, they can also buy a credit score that is based on the information in the report. A credit score helps lenders evaluate a credit report because it is a number that summarizes credit risk based on a snapshot of a credit report at a particular point in time.

The collected information in your report is the source of your credit score, a three-digit number that lenders use to decide whether or not to offer you credit and at what price. The higher your credit score, the better your chances are of getting a loan with an attractive interest rate. So when it comes to getting a good loan, it is important that your credit report—the basis for your credit score—is accurate, complete and in the best shape possible.

Many lenders use a system developed by the Fair Isaac Corporation called FICO® Scores. Think of credit scoring as a point system based on your credit history, designed to help predict how likely you are to repay a loan or make payments on time.

WESTconsin® CREDIT UNION

FIVE KEY INGREDIENTS OF YOUR FICO® CREDIT SCORE

FICO® Scores are calculated from many different pieces of credit data on your credit reports, but there are five main categories of information they consider.

- **Payment history** | 35%
- **Amount of debt** | 30%
- **Length of credit history** | 15%
- **New credit** | 10%
- **Credit mix** | 10%

Keep in mind that the importance of any one ingredient depends on the information on your entire credit report. Credit Mix, for instance, only makes up 10% of your score, but it will be a more important factor if there is not a lot of other information on your credit report.

PAYMENT HISTORY

Have you paid your bills on time? Late payments, bankruptcies and other negative items can hurt your score. A solid record of on-time payments helps your score.

AMOUNT OF DEBT

FICO® Scores look at the amounts you owe on all of your accounts, the number of accounts with balances and how much of your available credit you are using. The more you owe compared to your credit limit, the lower your score will be.

LENGTH OF CREDIT HISTORY

A longer credit history will increase your score. However, you can get a high credit score with a short credit history if the rest of your credit report shows responsible credit management.

NEW CREDIT

FICO® Scores take into account several factors when considering your amount of new credit, including how many new accounts you have recently opened and whether you have been rate shopping for a single loan or applying for multiple new credit lines. Opening several new credit accounts in a short period of time indicates greater credit risk.

CREDIT MIX

Several minor factors can influence your score. For example, having a mix of credit types on your credit report—credit cards, mortgage or personal loans and lines of credit—is normal for people with longer credit histories and can slightly add to their scores.