Frequently asked questions about FICO® Scores in the U.S.

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Introduction

Before you start

Consumer reporting agency (CRA)

An organization that assembles or evaluates consumer credit information or other information on consumers to prepare and furnish consumer reports to third parties. The three largest CRAs, also referred to as credit bureaus, in the U.S. are Equifax, Experian, and TransUnion.

Credit file

The credit records at a consumer reporting agency regarding a given individual. The file may include the person's name, address, Social Security number, credit history, inquiries, collection records, and public record bankruptcy filings.

Credit inquiries

Applying for credit authorizes lenders to ask or "inquire" for a copy of your credit report from one or several consumer reporting agencies. Inquiries are listed on your credit report.

Credit history

A record of a person's credit accounts and activities, including how the person has repaid credit obligations in the past.

Credit report

A detailed report of an individual's credit history is stored in an individual's credit report, prepared by a consumer reporting agency, and used by a lender when making credit decisions. Most credit reports include the person's name, address, credit history, inquiries, collection records, and public record bankruptcy filings.

Credit risk

The likelihood that individuals will pay their credit obligations as agreed. Borrowers who are more likely to pay as agreed pose less risk to creditors and lenders.

Score factors

Score factors are the top areas that affect that consumer's FICO® Score and are delivered with a consumer's FICO Score. The order in which the score factors are listed is important. The first factor indicates the area that most affected the score, and the second factor is the next most significant influence. Addressing these factors can benefit the score.

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About credit scoring

When applying for credit — such as a credit card, auto loan, or mortgage — the company from which you are seeking credit checks your credit report from one or more of the three major consumer reporting agencies (CRAs). In addition to your credit report, the company will most likely use a credit score (such as a FICO® Score) in their evaluation of credit risk before lending money to you. Each lender has its process and policies for making decisions when reviewing a credit application. Most lenders consider a FICO Score along with additional information, either from one or more of your credit reports or from supplemental information you provide with your application, such as your income.

What is a credit score?

A credit score is a number summarizing your credit risk based on your credit data. It helps lenders evaluate your credit profile and influences the credit that's available to you, including loan and credit card approvals, interest rates, credit limits, and more.

What is in a credit report?

Although each consumer reporting agency formats and reports this information differently, all credit reports contain the same categories of information.

- **Identifying information –** Your name, address, Social Security number, date of birth, and employment information. This information is not used in calculating FICO® Scores; it is only used to identify you. Updates to this information come from information you supply to your lenders.
- **Credit accounts –** Most lenders report information about each account you have established with them. They report the type of credit account, the date you opened the account, your credit limit or loan amount, the account balance, and your payment history.
- **Credit inquiries –** Your credit reports list the inquiries that lenders have made for your credit reports within the last two years. When you apply for a loan, you authorize your lender to ask for a copy of your credit reports. This is how inquiries appear on your reports.
- **Bankruptcies and collections –** Consumer reporting agencies also collect bankruptcy information (often found in the public record segment of a credit report) from state and county courts, and delinquencies reported by collection agencies.

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How do I check my credit report for free?

You may get a free copy of your credit report from each of the three major consumer reporting agencies annually. To request a copy of your credit report:

- Visit www.annualcreditreport.com
- Call 1-877-322-8228
- Write to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281

Please note your free credit report will not include your FICO® Score. Because your FICO Score is based on the information in your credit report, it is important to make sure that the credit report information is accurate.

What if there's an error on my credit report?

Although each consumer reporting agency formats and reports this information differently, your credit information is based on a snapshot of the current information in your credit report. If you find an error on one or more of your credit reports, contact the consumer reporting agency or the organization that provided the information to the agency. Both parties are responsible for correcting inaccurate or incomplete information in your report as required by the Fair Credit Reporting Act (FCRA).

- Equifax disputes (www.equifax.com/personal/credit-report-services/credit-dispute)
- Experian disputes (www.experian.com/disputes/main.html)
- TransUnion disputes (www.transunion.com/credit-disputes/dispute-your-credit)

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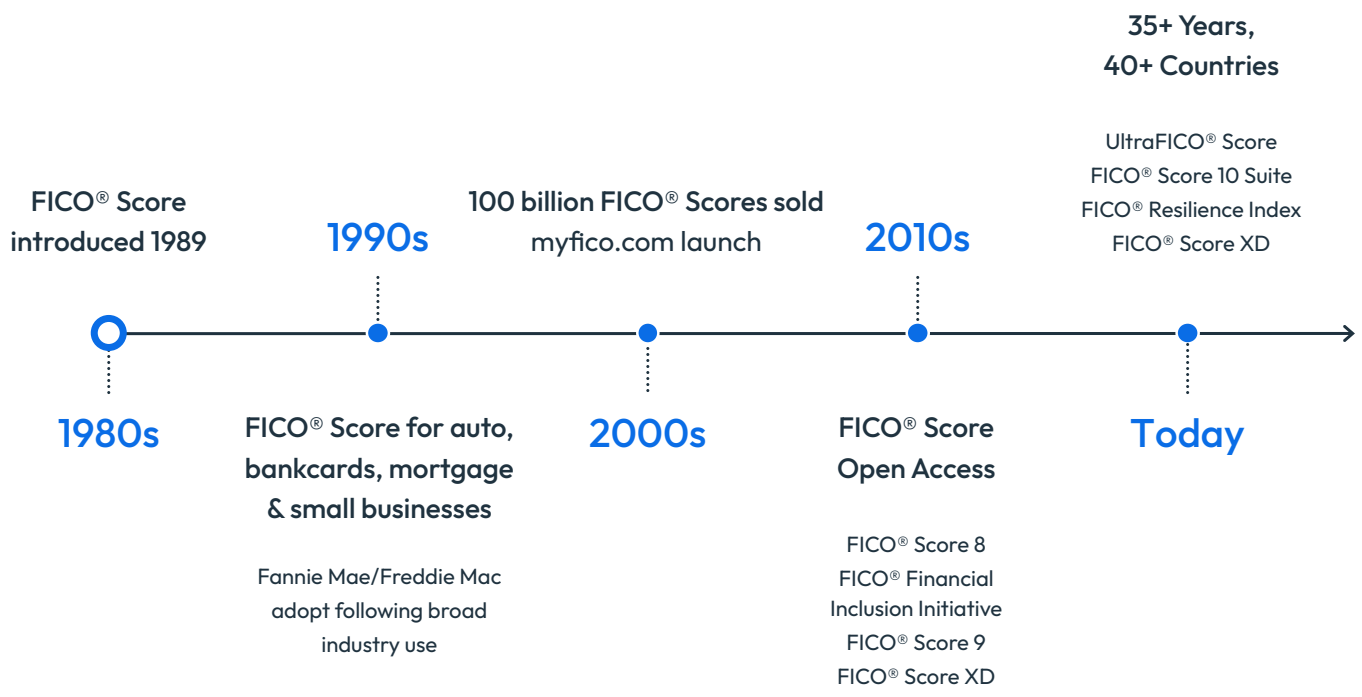
Introduction to FICO® Scores

About FICO

FICO, formerly known as Fair Isaac Corporation, is the company that invented FICO® Scores. Starting in the 1950s, FICO sparked a revolution in credit risk assessment by pioneering credit risk scoring for credit grantors. This new approach to measuring risk enabled banks, retailers, and other businesses to improve their performance and expand consumers' access to credit. Today, FICO Scores are widely recognized as the industry standard for measuring credit risk.

It is important to note that while FICO works with the consumer reporting agencies to provide your FICO® Scores, it does not have access to or store any of your personal data or determine the accuracy of the information in your credit file.



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About FICO® Scores

FICO® Scores are the most widely used credit scores. Each FICO Score is a three-digit number calculated from the data on your credit reports at the three major consumer reporting agencies — Equifax, Experian, and TransUnion. Your FICO Scores predict how likely you are to pay back a credit obligation as agreed.

Lenders use FICO® Scores to help them quickly, consistently, and objectively evaluate potential borrowers' credit risk.

FICO® Score

are used by **90%** of the top US lenders.

Why do FICO® Scores matter?

Lenders use credit scores to help them determine if you are a risky borrower and which terms (rates and conditions) they may offer you. Having a good credit score and keeping track of it regularly may help you get the best conditions when applying for a credit card or a loan.

What are the minimum requirements to calculate a FICO® Score?

A credit file must contain these minimum requirements:

- At least one account is open for six months or more.
- At least one account was reported to a CRA within the past six months.
- No indication of deceased on the credit file (if you shared an account with a person reported as deceased, make sure your credit report is not affected).

Do I have more than one FICO® Score?

To keep up with consumer trends and the evolving needs of lenders, FICO periodically updates its scoring model, resulting in new FICO® Score versions being released to the market every few years. Additionally, different lenders use different versions of FICO Scores when evaluating your credit. Auto lenders, for instance, often use FICO® Auto Scores, an industry-specific FICO Score version that's been tailored to their needs.

Why is my FICO® Score different than other scores I have seen?

There are many different credit scores available to consumers and lenders. FICO® Scores are the credit scores used by most lenders, and different lenders may use different versions of FICO Scores. In addition, FICO Scores are based on data from a CRA, so differences in your credit files may create differences in your FICO® Scores.

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What is a good FICO® Score?

FICO® Scores generally range from 300 to 850, where higher scores demonstrate lower credit risk and lower scores demonstrate higher credit risk (some types of FICO Scores have a slightly broader range). What's considered a "good" FICO Score varies, since each lender has its own standards for approving credit applications based on the level of risk it finds acceptable. One lender may offer its lowest interest rates to people with FICO Scores above 730, while another may only offer it to people with FICO Scores above 760.

Poor	Fair	Good	Very Good	Exceptional
300–579	580–669	670–739	740–799	800–850

The chart below provides a breakdown of ranges for FICO® Scores found across the U.S. consumer population. Again, each lender has its credit risk standards, but this chart can serve as a general guide of what a FICO Score represents.

FICO's research shows that people with a high FICO® Score tend to:

- Make all payments on time each month.
- Keep credit card balances low.
- Apply for new credit only when needed.
- Establish a long credit history.

Score rating	Score range	Score rating description
Poor	300-579	Well below average, lenders consider this borrower risky.
Fair	580-669	Below average, some lenders will approve loans with this score.
Good	670-739	Near average, most lenders consider this score good.
Very Good	740-799	Above average, lenders consider this borrower very dependable.
Exceptional	800-850	Well above average, lenders consider this borrower exceptional.

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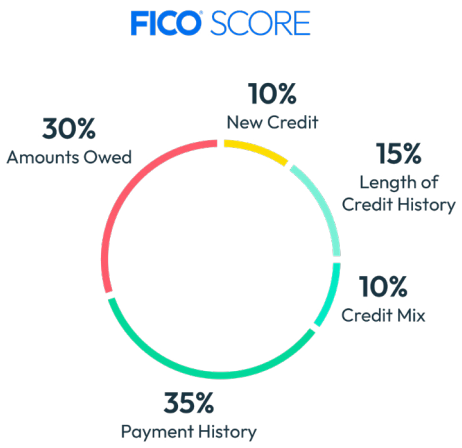
What goes into FICO® Scores?



FICO® Scores are calculated from the credit data in your credit report. This data is grouped into five categories; below is a detailed breakdown of the relative importance of each category. As you review this information, keep in mind that:

- FICO® Scores take into consideration all these categories, not just one or two.
- The importance of any factor (or piece of information) depends on the information in your entire credit report.
- FICO® Scores look only at the credit-related information on a credit report.
- FICO® Scores consider both positive and negative information on a credit report.

Payment History

Approximately 35% of a FICO® Score is based on payment information on many types of accounts (for example: credit cards, retail accounts, installment loans, and finance company accounts)

- Bankruptcy and collection items
- Details on late or missed payments ("delinquencies"), bankruptcies, and collection items.
- Number of accounts with no late payments or currently paid as agreed.

How do late payments affect FICO® Scores?

FICO® Scores consider late payments in these general areas; how recent the late payments are, how severe the late payments are, and how frequently the late payments occur. This means that a recent delinquency could be more damaging to a FICO Score than several late payments that happened a long time ago.

You may have noticed on your credit reports that late payments are listed by how late the payments are. Typically, creditors report late payments in one of these categories: 30 days late, 60 days late, 90 days late, 120 days late, 150 days late, or charge-off. While a 90-day late is worse than a 30-day, the important thing to understand is that people who continually pay their bills on time tend to appear less risky to lenders.

A history of payments is the largest factor in FICO® Scores. Sometimes circumstances cause people to be unable to keep current with their bills — maybe an unexpected medical emergency or losing a job. Creditors and legitimate credit counselors may be able to provide direction to people when they are having trouble responsibly managing their financial health. Late payments hurt scores and credit standing, but paying off late debt before going to a collection agency will have a positive effect on a score.

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Amounts owed

Approximately 30% of a FICO® Score is based on this information.

- The amount owed on all accounts.
- Number of accounts with a balance.
- Total credit line used on revolving accounts.
- Amount still owed on installment loans, compared with the original loan amounts.

What is credit utilization?

Credit utilization is one of the most important factors evaluated in this category; it considers the amount you owe compared with how much credit you have available.

Having credit accounts with an outstanding balance does not necessarily mean you are a high-risk borrower with a low FICO® Score. A long history of demonstrating consistent payments on credit accounts is a good way to show lenders you can responsibly manage additional credit.

Why does credit utilization matter?

While lenders determine how much credit they are willing to provide, you control how much you use. FICO's research shows that people using a high percentage of their available credit limits are more likely to have trouble making some payments now or in the near future, compared with people using a lower level of available credit.

What's the ideal utilization ratio?

There is no single utilization percentage that equates to optimal points. Generally, lower utilization means less credit risk and a positive effect on FICO® Scores.

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Length of credit history

Approximately 15% of a FICO® Score is based on this information. In general, a longer credit history will increase a FICO Score, all else being equal. However, even people who have not been using credit for long can get a good FICO Score, depending on what their credit report says about their payment history and amounts owed. Regarding the length of history, a FICO Score considers:

- How long have credit accounts been established. A FICO Score can consider the age of the oldest account, the age of the newest account, and the average age of all accounts.
- How long it's been since specific credit accounts have been established.
- How long it's been since you used certain accounts.

How is a credit history established?

There are a few ways to establish a credit history, including the following.

- By applying for and opening a new credit card account. A person with no or little credit history may not get very good terms on this credit card — such as a high annual percentage rate (APR). However, by charging small amounts and paying off the balance each month, you may avoid paying interest while establishing a solid payment history.
- Those unable to get approved for a traditional credit card may be able to open a secured credit card to build a credit history, provided the card issuer reports secured cards to the consumer reporting agency. This type of card requires a deposit of money with the credit card company. Charges can then be made on the secured card, typically up to the amount deposited.

With both traditional and secured credit cards, you will be on your way to building a positive credit file by keeping balances low and paying them off each month.

Credit mix (aka types of credit in use)

Approximately 10% of a FICO® Score is based on credit mix. FICO Scores consider the mix of credit cards, retail accounts, installment loans, finance company accounts, and mortgage loans. It is not necessary to have one of each, and it is not a good idea to open a credit account you don't intend to use. In this category, a FICO Score considers:

- Types of credit accounts on the credit report. Do they include revolving and installment accounts or is the credit experience limited to only one type?
- Number of accounts of each type. A FICO Score also looks at the total number of accounts established. For different credit profiles, how many are too many will vary depending on the overall credit picture.

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New credit

Approximately 10% of a FICO® Score is based on new credit information. FICO's research shows that opening several credit accounts in a short period of time represents greater risk — especially for people who do not have a long credit history. In this category, a FICO Score considers:

- Number of new accounts opened.
- Length of time since a new account was opened.
- Number of recent requests for credit made, as indicated by inquiries to the consumer reporting agencies.
- Length of time since inquiries from credit applications were made by lenders.
- Whether there is a good recent credit history following any past payment problems.

Looking for an auto, mortgage, or student loan may cause multiple lenders to request your credit report, even though you are only looking for one loan. In general, FICO® Scores compensate for this shopping behavior in the following ways:

- FICO® Scores ignore auto, mortgage, and student loan inquiries made in the 30 days before scoring, so the inquiries won't affect the scores of consumers who apply for a loan within 30 days.
- After 30 days, FICO® Scores typically count inquiries of the same type (e.g., auto, mortgage, or student loan) that fall within a typical shopping period as just one inquiry when determining your score.

What is a credit inquiry?

When you apply for credit, you authorize those lenders to ask or "inquire" for a copy of your credit report from a consumer reporting agency. When you later check your credit report, you may notice that their credit inquiries are listed. You may also see inquiries by businesses that you don't know. The only inquiries that count toward your FICO® Scores are the ones that result from your applications for new credit.

- **Soft inquiry —** Soft inquiries are credit inquiries where your credit is NOT being reviewed by a prospective lender. FICO® Scores do not consider involuntary (soft) inquiries made by businesses with which you did not apply for credit, inquiries from employers, inquiries from lenders for account review purposes for which you already have a credit account, or your own requests to see your credit file.
- **Hard inquiry —** Hard inquiries include credit checks when you've applied for an auto loan, mortgage, credit card, or other types of loans. Each of these types of credit checks counts as a single inquiry. One exception occurs when you are "rate shopping." Your FICO® Scores consider all hard inquiries within a reasonable shopping period for an auto, student loan, or mortgage as a single inquiry.

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Will my FICO® Scores drop if I apply for new credit?

If so, they probably won't drop much. If you apply for a credit account, a request for your credit report information (called a "hard inquiry") will appear on your report. Looking for new credit can indicate higher risk by lenders, but multiple inquiries from auto, mortgage, or student loan lenders within a short period of time are treated as a single inquiry rather than multiple inquiries and tend to have little effect on your FICO® Scores.

Does applying for a new account affect my credit?

Applying for a new account such as a revolving account — credit cards, including a retail credit card — authorizes a lender to review your credit information and creates a "hard inquiry" on your credit report. Most often one hard credit inquiry has minimal effect on a credit score. However, multiple hard inquiries in a short amount of time could hurt a score unless the multiple applications are meant to find the best deal for an auto, mortgage, or student loan.

What is a typical FICO® Score for someone new to credit?

FICO® Scores are generated by complex mathematical algorithms based on unique credit report data, so there is no "typical" or "entry-level" score. While someone new to credit may have difficulty scoring in the highest score ranges due to a limited number of active accounts and length of history, it is possible to have a FICO Score that meets lenders' criteria for granting credit. FICO Scores consider the extent to which people can demonstrate a good track record of making payments on time. Payment history is more important for FICO Scores (about 35%) than length of credit history (about 15%).

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What Is NOT Included in FICO® Scores?

FICO® Scores consider a wide range of information on a credit report. However, they do not consider:

FICO® Scores do not consider
your age, gender, race, or martial (not martial) status

- Race, color, religion, national origin, age, gender, or marital status
- Salary or other employment information (however, lenders may consider this information separately)
- Where the consumer lives
- Certain types of inquiries
- Any information not found in the credit report
- Any items reported as child/family support obligations
- Any interest rate being charged on a credit card or other account

Does income factor into FICO® Scores?

No. Income (and any other information not found on your credit reports) is not considered in FICO® Scores.

Your income has **no impact** on your
FICO® Score

Are FICO® Scores unfair to minorities?

No. FICO® Scores do not consider your gender, race, nationality, or marital status, or any other personal information. The Equal Credit Opportunity Act prohibits lenders from considering this type of information when issuing credit. Independent research has shown that FICO Scores are not unfair to minorities or people with little credit history. FICO Scores have proven to be an accurate and consistent measure of repayment risk.

How are FICO® Scores calculated for married couples?

Married couples don't have joint FICO® Scores; they each have individual scores. The difference is that when you are single you usually only need to worry about your own credit habits and credit profile. However, if you and your spouse open a credit account under both your names, the spending and payment behavior on that account will impact both your FICO Scores.

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Better understanding FICO® Scores

Best practices

Your FICO® Scores are solely based on your credit decisions as captured in your credit reports. Every time you open a credit card or make a car payment, you're adding to your credit history, which FICO Scores evaluate. Therefore, it is important to develop healthy, responsible credit habits that will have a positive impact on your FICO Scores.

What helps my FICO® Score the most?

Higher FICO® Scores are a result of healthy credit behaviors, and the best way to have higher FICO Scores is to demonstrate healthy credit behaviors over time. Here are a few tips you can follow.

- **Pay your bills on time –** Delinquent payments and collections can have a major negative impact on your FICO® Scores. If you're behind on payments, get current and stay current.
- **Avoid collections –** Paying off a collection account will not remove it from your credit report. It will stay on your report for seven years.
- **Keep balances low –** It's okay to use your credit cards, just be careful about using a large percentage of your available credit. High utilization rates can have a major impact on your FICO® Scores.
- **Do your rate shopping within a short period of time –** FICO® Scores distinguish between a search for a single loan and a search for a mortgage, student, or auto loan in part by the length of time over which inquiries occur.
- **Have credit and manage it responsibly –** Ultimately, having a mixture of credit is a good thing — as long as you make your payments regularly and on time. Someone with no credit cards tends to be at higher risk than someone who has managed credit cards responsibly.
- **Don't close unused credit cards to raise your scores –** Your FICO® Scores consider the age of your accounts — the longer your credit history, the better.
- Check your credit reports and FICO® Scores as often as you like; it will not lower your scores.

Will spending less and saving more affect a FICO® Score?

While putting more money toward savings is usually a good idea, it's not necessarily going to affect your FICO® Scores. FICO Scores do not consider the amount of cash you have; therefore the amount of money you save doesn't affect your FICO Scores.

As far as spending less, that could influence your FICO® Scores. For example, if you typically use your credit cards for purchases and you don't always pay off the balance on those credit

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cards, then you may notice a change in your FICO Scores. FICO Scores factor in the balance on revolving credit accounts.

What impacts my FICO® Score the most when applying for new credit?

Applying for new credit only accounts for about 10% of a FICO® Score, so the effect is relatively modest. Exactly how much applying for new credit affects your score depends on your overall credit profile and what else is already in your credit reports. For example, applying for new credit can have a greater effect on your FICO Scores if you only have a few accounts or a short credit history.

That said, there are a few things to be aware of depending on the type of credit you are applying for. When you apply for credit, a credit check or "inquiry" can be requested to check your credit standing. Let's look at the common inquiries you might find in your credit reports.

Credit cards – If you only need a small amount, credit card companies will sometimes provide an increased credit limit on existing accounts. While a request for an increased limit may count as an inquiry just like opening a new card, it won't reduce the average age of your credit accounts, which is also important to your FICO® Scores.

If raising the limit on an existing card isn't an option, then applying for the fewest number of credit cards will have the least negative effect on your FICO® Scores. For example, if a person needed an extra $5,000, getting one card with a $5,000 limit has less effect on your score than getting two cards each with $2,500 limits. That's because when applying for new credit cards, each application is counted separately as an individual inquiry in your credit file, and the more inquiries you have, the more that could hurt your FICO Scores. Having more inquiries makes you look riskier to potential lenders.

Home, auto, and student loans – FICO® Scores do not penalize people for rate shopping for a home, car, or student loan. During rate shopping, multiple lenders may request your credit reports, but FICO Scores de-duplicate these and consider inquiries within a reasonable shopping period for an auto, student loan, or mortgage each as a single inquiry. Doing the entire rate shopping and getting the loan within 45 days will have no immediate effect on your FICO® Score.

Given the rate shopping for home, auto, and student loans has no immediate effect, why do you even see an inquiry in your credit files? While these types of inquiries may appear in your files, FICO® Scores count all those inquiries within a typical shopping period as just one inquiry. Rate shopping within a matter of weeks as opposed to a matter of months limits the longer-term effect on your scores as well.

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General questions about FICO® Scores

90% of top US lenders use **FICO® Scores**

How are FICO® Scores different from other credit scores?

Not all credit scores are FICO® Scores. Because FICO® Scores are used by 90% of top US lenders, knowing your FICO® Score is the best way to understand how potential lenders could evaluate your credit risk when you apply for a loan or credit. Other credit scores, which use scoring formulas different from FICO's, may not give you an accurate representation of the scores your lender uses when assessing your credit profile.

Why do FICO® Scores fluctuate/change?

There are many reasons why a score may change. FICO® Scores are calculated each time they are requested, taking into consideration the information that is in your credit file from a consumer reporting agency at that time. As the information in your credit file at that CRA changes, FICO Scores can also change. Review your key score factors, which explain which factors from your credit report most affected a score. Comparing key score factors from the two different time periods can help identify causes for a change in a FICO Score. Keep in mind that certain events such as delinquent payments or bankruptcy can lower FICO Scores quickly.

Can an account that is not in my credit report affect my FICO® Score?

Traditional FICO® Scores only consider accounts on your credit report, and while your FICO Scores capture a pretty accurate picture of your credit history, not every account is recorded. Your positive rental and utility payment history may not be listed in your credit reports. However, not paying these bills on time can negatively affect your FICO Scores:

- **Reported delinquencies:** While your good payment history isn't reported, your landlord and utility companies have the right to report delinquencies to the consumer reporting agencies. If the bill continues to go unpaid, your account could be turned over to a collection agency. A collection can show up in your credit reports and can be as harmful to your FICO® Scores as the more commonly reported delinquencies on loans or credit cards.

- **Future referrals:** The next time you need to move, your potential landlord is likely to require a copy of your credit report and a FICO® Score. They may also want to contact your current landlord to check if you paid your rent on time. Even if you have a high FICO Score, a potential landlord could choose another candidate if your current landlord reports late or incomplete payments, since people who consistently pay their bills on time appear less risky.

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Do employers use FICO® Scores in hiring decisions?

No. While federal law allows review of credit reports for employment screening, FICO® Scores are not included with the reports.

Why are my FICO® Scores different for the three credit bureaus?

In the U.S., there are three national credit bureaus (Equifax, Experian, and TransUnion) that compete to capture, update, and store the credit histories of most U.S. consumers. While most of the information collected on consumers by the three credit bureaus is similar, there are differences. For example, one credit bureau may have unique information captured on a consumer that is not being captured by the other two, or the same data element may be stored or displayed differently by the credit bureaus.

When the scores are significantly different across bureaus, it is likely the underlying data in the credit bureaus is different, thus driving that observed score difference. However, there can be score differences even when the underlying data is identical, as each bureau's FICO scoring systems was designed to optimize the predictive value of their unique data.

Keep in mind the following points when comparing scores across bureaus:

Not all credit scores are **FICO® Scores**

- Not all credit scores are FICO® Scores. Make sure the credit scores you are comparing are actual FICO Scores.
- The FICO® Scores should be accessed at the same time. The passage of time can result in score differences due to model characteristics that have a time-based component. Comparing a FICO Score pulled on bureau "A" from last week with a score pulled on bureau "B" today can be problematic as the "week-old score" may already be "dated."
- Your entire credit information may not be reported to all three credit bureaus. The information on your credit report is supplied by lenders, collection agencies, and court records. Don't assume that each credit bureau has the same information about your credit history.
- You may have applied for credit under different names (for example, Robert Jones versus Bob Jones) or a maiden name, which may cause fragmented or incomplete files at the credit reporting agencies. While, in most cases, the credit bureaus combine all files accurately under the same person, there are many instances where incomplete files or inaccurate data (Social Security numbers, addresses, etc.) cause one person's credit information to appear on someone else's credit report.
- Lenders report credit information to the credit bureaus at different times, often resulting in one agency having more up-to-date information than another.
- Credit bureaus may record, display, or store the same information in different ways.

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More FAQs by credit types

Mortgages

How long will a foreclosure affect a FICO® Score?

A foreclosure remains in your credit files for seven years, but its effect on your FICO® Scores will lessen over time. While a foreclosure is considered a very negative event by FICO Scores, it's a common misconception that this will ruin your scores for a very long time. If all other credit obligations remain in good standing, your FICO Scores can begin to rebound in as little as two years. The important thing to keep in mind is that a foreclosure is a single negative item, and if you keep this item isolated, it will be much less damaging to your FICO Scores than if you had a foreclosure in addition to defaulting on other credit obligations.

Are the alternatives to foreclosure any better as far as FICO® Scores are concerned?

The common alternatives to foreclosure, such as short sales, and deeds-in-lieu of foreclosure, are all "not paid as agreed" accounts, and considered the same by FICO® Scores. Let's streamline the not to/not: While these may be better options in some situations, they will be considered no better or worse than a foreclosure by FICO Scores.

Bankruptcies as an alternative to foreclosure may have a greater impact on a FICO® Score. While a foreclosure is a single account that you default on, declaring bankruptcy can affect multiple accounts and therefore has the potential for a greater negative effect on your FICO Scores.

How do loan modifications affect a FICO® Score?

Your servicer will likely use a FICO® Score, along with other factors, to help determine the new terms of your loan, such as your mortgage rate. In general, your FICO Scores play a key role any time you apply for new credit or change the terms of a loan.

FICO® Scores are calculated from the information in consumer credit files. Whether a loan modification affects the borrower's FICO Scores depends on whether and how the lender reports the event to the consumer reporting agencies, as well as on the person's overall credit profile. If a lender indicates to a consumer reporting agency that the consumer has not made payments on a mortgage as originally agreed, that information in the consumer's credit reports could cause the consumer's FICO Scores to decrease or it could have little to no effect on his or her FICO Scores.

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How does refinancing affect my FICO® Score?

Refinancing and loan modifications can affect your FICO® Scores in a few areas. How much these affect the score depends on whether it's reported to the consumer reporting agencies as the same loan with changes or as an entirely new loan.

If a refinanced loan or modified loan is reported as the same loan with changes, three pieces of information associated with the loan modification may affect your score: the credit inquiry, changes to the loan balance, and changes to the terms of that loan. Overall, the effect of these changes on your FICO® Scores should be minimal.

If a refinanced loan or modified loan is reported as a "new" loan, your score could still be affected by the inquiry, balance, and terms of the loan — along with the additional effect of a new "open date." A new or recent open date typically indicates that it is a new credit obligation and, as a result, can affect the score more than if the terms of the existing loan are simply changed.

Credit cards

Should I take advantage of promotional credit card offers?

Generally, opening new accounts can indicate increased credit risk and can hurt your FICO® Scores. Every individual's situation is unique, but in general consumers with a moderate number of revolving accounts on their credit reports represent lower risk than consumers with either a relatively large number or a very limited number of revolving accounts. However, please keep in mind that opening a new account, and to a lesser extent the resulting credit inquiry, may demonstrate higher risk in the short term.

Will closing a credit card account affect a FICO® Score?

Yes, but not in the way you might expect. While closing an account may be a good strategy for responsible financial health management in some cases, it also may have a negative effect on your FICO® Scores. FICO Scores take into consideration something called a "credit utilization ratio." This ratio looks at your total used credit in relation to your total available credit; the higher this ratio is, the more it can negatively affect your FICO Scores. Closing an old or unused card essentially wipes away some of your available credit and thereby increases your credit utilization ratio.

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What's the best way to manage my growing credit card debt?

There are several things to consider when managing credit card debt. People who only have one credit card available and are coming close to maxing out that card might consider applying for another card since credit utilization affects their FICO® Scores.
However, it is also important to keep in mind that consumers with a moderate number of revolving accounts on their credit report generally represent lower risk than consumers with either a relatively large number or a very limited number of revolving accounts.

Student loans

What is the effect of paying student loans while in college versus after graduation?

Once you start paying your student loan, it will be part of your credit information considered by FICO® Scores. Deferred loans do not harm FICO Scores. The existence of the loan is a factor used to demonstrate the length of credit history and mix of credit.

Keep in mind that missing or late payments have a negative impact on FICO Scores.

Any credit type

How are FICO® Scores affected by the combination of interest and principal?

Most installment loans are a combination of interest and principal. The inputs into your FICO® Scores are based on data in your credit report, which generally does not break out the interest and principal components, but instead reports the overall debt. Therefore, the fact that loan payments are a combination of interest and principal does not have an impact on a score.

Does moving loans into forbearance affect FICO® Scores?

Forbearance is a period of time during repayment in which a borrower is permitted to temporarily postpone making regular monthly payments. The debt is not forgiven, but regular payments are suspended until a later time. As an example, forbearance may be granted if a borrower is experiencing temporary financial difficulty. The consumer may be making reduced payments, interest-only payments, or no payments. FICO® Scores do not consider the fact that a loan is in forbearance. Therefore, the fact that a loan moved into forbearance would not impact the score. However, even when a loan is in forbearance, other information about the loan may continue to impact the score.

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Glossary

Bankruptcy

A legal process overseen by federal bankruptcy courts, a bankruptcy may help individuals repay or eliminate all or part of their debt. Bankruptcies have serious and long-term effects on an individual's credit and remain on a credit report for 7-10 years.

Charge-off

A declaration by a lender, generally for tax purposes, that an amount of debt is unlikely to be collected, which can happen when a person becomes severely delinquent in repaying a debt. The lender reports to the consumer reporting agencies that it has taken a loss, but the borrower is still responsible for paying back the debt. Also known as a "write-off."

Collection

Attempted recovery of a past-due credit obligation by a lender's collection department or a separate collection agency.

Consumer reporting agency (CRA)

An organization that assembles or evaluates consumer credit information or other information on consumers to prepare and furnish consumer reports to third parties. The three largest CRAs, often also referred to as credit bureaus, in the U.S. are Equifax, Experian, and TransUnion.

Credit account

A specific lending arrangement between a creditor and borrower that provides the borrower with a loan or a revolving instrument such as a credit card, with an obligation to repay the creditor. Sometimes referred to as a credit obligation.

Credit file

The credit records at a consumer reporting agency regarding a given individual. The file may include the person's name, address, Social Security number, credit history, inquiries, collection records, and public record bankruptcy filings.

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Credit history

A record of a person's credit accounts and activities, including how the person has repaid credit obligations in the past.

Credit inquiries

See **What is a credit inquiry?**

Credit limit

The amount of credit that a financial institution extends to a borrower. Credit limit also refers to the maximum amount a credit card company will allow someone to borrow on a single card. Credit limits are usually determined based on the applicant's FICO® Score and information contained in their credit application.

Credit obligation

See **Credit account**

Credit report

A detailed report of an individual's credit history is stored in an individual's credit file prepared by a consumer reporting agency and used by a lender when making credit decisions. Most credit reports include the person's name, address, credit history, inquiries, collection records, and public record bankruptcy filings.

Credit risk

The likelihood that individuals will not pay their credit obligations as agreed. Borrowers who are more likely to pay as agreed pose less risk to creditors and lenders.

Default

When a debtor (or borrower) is unable or unwilling to meet the legal obligation of debt repayment. Usually, an account is considered in "default" after being delinquent for several consecutive 30-day billing cycles.

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Delinquent

A failure to deliver even the minimum payment on a loan or debt payment on or before the time agreed. Because most lenders have monthly payment cycles, they usually refer to such accounts as 30-, 60-, 90-, or 120-day delinquent.

Equal Credit Opportunity Act (ECOA)

Equal Credit Opportunity Act. Federal legislation that prohibits discrimination in credit. The ECOA originally was enacted in 1974 as Title VII of the Consumer Credit Protection Act.

Fair Credit Reporting Act (FCRA)

Federal legislation promoting the accuracy, confidentiality, and proper use of information in the files at each "consumer reporting agency." The FCRA was enacted in 1970.

FICO® Industry Score

A type of FICO® Score offered by all three U.S. consumer reporting agencies — Equifax, Experian, and TransUnion — ranging from 250 to 900 and used by some lenders to address specific types of lending products, such as auto loans or credit cards.

Installment debt

Debt to be paid back at regular intervals over a specified period. Examples of installment debt include most mortgages and auto loans. Sometimes referred to as an "installment account" or an "installment loan."

Revolving credit/debt

A line of credit that the borrower can repeatedly use and pay back without having to reapply every time credit is used. Credit cards are the most common type of revolving account. Other types include department store cards and travel charge cards.

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Score factors

Score factors are the top areas that affect that consumer's FICO® Scores and are delivered with a consumer's FICO Score. The order in which the score factors are listed is important. The first factor indicates the area that most affected the score, and the second factor is the next most significant influence. Addressing these factors can benefit the score.

Scoring model

A mathematical formula or statistical algorithm used to predict certain behaviors of prospective borrowers or existing customers relative to other people. A scoring model calculates scores based on data such as information on a consumer's credit report, which has proven to predict specific consumer behaviors.

Utilization ratio

The proportion of the balance owed on revolving accounts divided by the available credit limit(s). Utilization is an input used in determining a person's credit score. Typically, it is the amount of outstanding balances on all credit cards divided by the sum of their credit limits, and it's expressed as a percentage.

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Image descriptions

FICO® Scores timeline

The FICO® Scores timeline from the 1980s until today is described as follows:

- 1980s. FICO® Scores were introduced in 1989.
- 1990s. Creation of FICO® Scores for auto, bankcards, mortgage, and small businesses.
- 2000s. 100 billion FICO® Scores were sold. MyFICO was launched.
- 2010s. FICO® Score Open Access was launched. FICO® Score 8 was released as well as the FICO® Financial Inclusion Initiative, FICO® Score 9, and FICO® Score XD.

Today (2020s). FICO celebrates 35+ years, 40+ countries. UltraFICO® Score was released as well as the FICO® Score 10 Suite, the FICO® Resilience Index, and FICO® Score XD. See fico.com/inclusion for additional information.

FICO® Score ratings

There are five score ratings and corresponding score ranges:

- Below 579, a score is considered POOR.
- From 580 to 669, a score is considered FAIR.
- From 670 to 739, a score is considered GOOD.
- From 740 to 799, a score is considered VERY GOOD.
- Above 800, a score is considered EXCEPTIONAL.

FICO® Score categories

Image of the FICO® Score doughnut split into five categories and their scoring percentages.

- 35% for payment history
- 30% for amount owed
- 15% for length of credit history
- 10% for new credit
- 10% for credit mix

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