Understanding Credit Score Ratings & Ranges

Your credit score is a vital part of your financial history. Lenders and other organizations use it to understand how much of a risk you are regarding financial matters and repaying your debts. Understanding how your credit score is made up and the typical ranges and ratings can help you gain insight into your creditworthiness and allow you to make improvements.

Your credit score comes from several distinct but related areas that make up your credit history. These areas are combined to calculate your overall score.

What does a credit score represent?
Your credit score brings together all the different aspects of your credit history. It uses a formula to provide a single score indicating how likely you are to manage your credit well and repay any money loaned to you. It gives lenders an exact prediction of the potential risk involved in providing you with a loan. Credit scores range from the 300s to 850, with higher being better. Most people have scores falling in the 600s and 700s.

There is no "centralized" credit score. There are three main credit scoring agencies in the US - Experian, Equifax, and Transunion, and they all use slightly different calculations. This means that your score can vary by a small amount between agencies.

Why does a credit score matter?
Almost all lenders use credit scores to decide if the risk of lending money to you is worth taking. In other words, if you borrow money from them, your score shows how likely it is that they will be paid back.

Credit scores are used to determine your creditworthiness and are part of the decision that lenders make when giving you credit. Additionally, insurance companies and employers may also use your credit score to determine how financially responsible you are.

How will a good, average, or poor credit score impact you?
A good credit score generally means that you will receive a better deal in terms of interest, financing and repayment options. An average credit score will mean that you get a typical deal in terms of interest and repayments. A poor credit score generally means you will be charged more interest and may have harsher repayment terms.

What are the main factors that make up your credit score?
Each of the following areas has a signifcant impact on your overall FICO score.

Payment history - 35%
Payment history makes up over a third of your credit score. It represents how reliable you are in making regular payments to reduce your outstanding debt.

Amount of credit used - 30%
This is the second-largest factor in deciding your credit rating. It represents the amount of money that you owe (your outstanding balance vs. the amount you initially borrowed and/or your credit limit). In other words, the more you could borrow, and the less you owe, the better.

Length of Credit History - 15%
The amount of time you have had credit impacts your credit score - generally, the longer your credit history, the better.

Types of Credit Used - 10%
Managing several different types of credit properly is a positive sign for lenders and shows that you are more financially responsible.

Recent Searches for Credit - 10%
A large number of searches for credit (e.g. inquiring or applying for credit) will show on your credit record.

Other factors that impact your rating

Other factors that may negatively impact your credit score include:

- Money owed because of a court judgment
- Money owed because of a tax or other lien
- Having one of more recently opened consumer finance credit accounts
- Filing for bankruptcy
- Having a collection agency involved in getting money from you

Credit Score Ranges

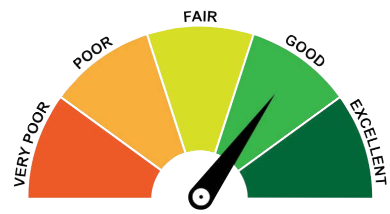
Credit scores can range from a low of 300 to a high of 850, and good credit scores are generally considered to be 680 and up, while a poor credit score would be 619 and below.

720 or higher - Excellent

A credit score in this range will provide you with the best interest rates and repayment terms on loans and credit of all kinds.

680 to 719 - Good

If your credit falls within this range, you can still expect to be accepted for the vast majority of credit and will get you good deals on interest and repayment terms, including acceptable mortgage rates.



620 to 679 - Average

With a score in this range, you can expect fair mortgage and loan terms, although not the best. You might want to consider improving your score.

580 to 619 - Poor

Any money that you borrow will very much be on the terms of the lender, which means that you can expect higher than typical interest rates and finance charges. If you are looking for a car loan, you cannot have a score lower than this.

500 to 579 - Bad

A credit score in this range means that any money you borrow will be costly for you. From higher than normal interest rates to harsh repayment terms, this will significantly impact the affordability of mortgages, consumer credit, and other loans.

Less than 500 - High-risk

If your credit score is less than 500, you will find it very difficult to get any financing or to borrow money at all. If you can get a loan, expect very high interest charges, punitive repayment terms, and other fees.

Understanding how your credit score is calculated is a vital first step towards improving it. Once you know how it's made up, you can identify the areas that need focus. With care and diligence, anyone can understand and make practical changes to improve their scores.

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