A SIMPLE GUIDE TO

UNDERSTANDING YOUR CREDIT SCORES

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A Brief History of Credit Scores

Prior to the creation of standardized credit scores, lenders and loan officers would often develop their own "score card" to assess the risk of lending to a particular borrower. This score card was based solely on one's credit report and could vary drastically from one lender to the next. The major issue with this original method was that it was based on a loan officer's ability to judge risk, rather than a common set of rules and specific calculations.

So, in the 1970's, the Fair Isaacs Company set up the first credit scoring system in order to help remove the inherent inconsistencies that arose from having each lender perform their own credit diagnostics. It has since become known as the FICO score and the algorithm has been widely adopted by America's largest credit reporting agencies.

Why Are My Scores Different At Each Bureau?

The three major credit bureaus are Equifax, Experian, and TransUnion. Simply put, the reason that the scores you receive may differ is that each score is dependent on the credit report that each receives and the scoring model they use.

In other words, Equifax might have not exactly the same information on you as Experian and vice versa. One credit bureau may be missing an account that either helps or hinders your score and will therefore report a different credit score than another credit bureau. If the system was perfect, this wouldn't happen. But since it isn't, you can make sure that they all have the proper information by ordering a free copy of your credit reports that are available once a year at www.AnnualCreditReport.com.

Why Are My Scores Different Between the Same Credit Bureau?

Credit bureaus use many different scoring models, even within the same credit bureau. Each bureau can use dozens of different credit score models based on the requirements of different lenders.

Each credit score model has a slightly different formula that takes into account over 200 different factors of your credit report; like a thumbprint, no credit score model is exactly the same. In addition, credit scores can change anytime so you have to make sure you are comparing credit scores from the same day.

As an example, a mortgage company will get a different score than a company providing auto loans, since they are looking for different types of credit history and credit factors. While FICO is the most famous, there are several other versions and providers of credit scores, such as VantageScore, BEACON, and EMPIRICA. Some scores are directly developed by credit bureaus, while others are developed by outside companies.

Is there a "Best Score?"

In a word, no. In order to protect revenues, credit reporting agencies will often position their scores as the best or the most predictive. In reality, all scores must adhere to similar guidelines to be truly predictive, regardless of the final output number. All credit scores are built from the same base set of data and statistical procedures.

Like many products and services in the marketplace, there are many options for you (and the businesses that serve you) to choose from, simply because every buyer is different. Based on cost and effectiveness in each buying situation, there are credit scores for sale to satisfy each customer.

Credit Score Ranges

Just as a point of reference, it may be important for you to know what the score rangers are for each of the major reporting agencies. While each agency uses internal predictors of certain events (e.g. how likely you are to file bankruptcy), the final credit score is not meant as a probability-meter for any specific event. In any case, the higher your score the better, as it is a general gauge of your overall credit worthiness in the eyes of lenders.

- FICO: traditionally between 350 and 850
- Experian: 350 - 850
- Equifax: 350 - 850
- TransUnion: 300 - 850
- VantageScore: 501 - 990 (often assigned a letter grade, A - F)

Credit Score	**Rating**
760 - 850	Excellent
700 - 759	Great
660 - 699	Good
620 - 659	Fair
580 - 619	Poor
580 and below	Very poor

Understanding What Factors Affect Your Credit Score

- **35%** of your credit score is based on your consistent payment history and only includes payments later than 30 days past due.
- **30%** is based on the percentage of your credit capacity being used; i.e., the ratio of current credit debt in comparison to total available credit or revolving credit. If you carry very low balances on credit cards, your score will be higher than if all your cards are nearly maxed out.
- **15%** of your score is determined by the length of your credit history.
- **10%** is based on the types of credit you have; i.e., installments (car payments, student loans, or a mortgage), revolving (credit cards or lines of credit), and consumer finance (bank loans and the equivalent).
- **10%** is based on recent searches for credit and/or the amount of credit you've recently obtained. Every time you apply for credit it affects your score negatively.

Improving Your Credit Scores

Now that you understand credit, you can begin making changes to your current financial situation. The best things you can do are simple.

Pay your bills on time. Sounds simple, but this is the most important thing that you can to do keep your credit scores high. Delinquent payments and collections have a major negative impact on your scores.

Keep your balances low on your unsecured revolving accounts such as credit cards. High balances vs. the limit will affect your scores.

Only apply for credit that you need. Too many inquiries will affect your credit scores.

Make sure that the information found in your credit reports are accurate.

Removing negative items off of your reports will have huge impact on your credit scores. Normally, negative items will remain on your reports for up to seven years from the date of last activity (seven to ten for public records), but you can hire a professional Credit Report Repair Company such as The Best Credit Group to handle it for you!