FREQUENTLY ASKED QUESTION FICO® SCORES

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About FICO® Scores

What is a credit score?

A credit score is a number that summarizes your credit risk. The score is based on a snapshot of your credit file(s) at one of the three major consumer reporting agencies (CRAs)—Equifax, Experian and TransUnion—at a particular point in time, and helps lenders evaluate your credit risk. Your credit score influences the credit that's available to you and the terms, such as interest rate, that lenders offer you.

What are FICO® Scores?

FICO® Scores are used by 90% of top lenders. Lenders can request FICO® Scores from all three major consumer reporting agencies (CRAs). Lenders use FICO® Scores to help them make billions of credit decisions every year. FICO develops FICO® Scores based solely on information in consumer credit files maintained at the CRAs. Understanding your FICO® Scores can help you better understand your credit risk. A good FICO® Score means better financial options for you.

What is a good FICO® Score?

The score above which a lender would accept a new application for credit, but below which the credit application would be denied, is known as the "score cutoff". Since the score cutoff varies by lender, it's hard to say what a good FICO® Score is outside the context of a particular lending decision. For example, one auto lender may offer lower interest rates to people with FICO® Scores above, say, 680; another lender may use 720, and so on. Your lender may be able to give you guidance on their criteria for a given credit product.

The chart below provides a breakdown of ranges for FICO® Scores found across the U.S. consumer population. It provides general guidance on what a particular FICO® Score represents. Again, each lender has its own credit risk standards.

Ranges of FICO® Scores	Rating	What FICO® Scores in this range mean
800 or Higher	Exceptional	• These FICO® Scores are in the top 20% of U.S. consumers • Demonstrate to lenders that the consumer is an exceptional borrower
740 to 799	Very Good	• These FICO® Scores are in the top 40% of U.S. consumers • Demonstrate to lenders that the consumer is a very dependable borrower
670 to 739	Good	• These FICO® Scores are near the average for U.S. consumers • Considered by most lenders to be good scores
580 to 669	Fair	• These FICO® Scores are in the lowest 40% of U.S. consumers • Some lenders will approve credit applications within this score range
Lower than 580	Poor	• These FICO® Scores are in the lowest 20% of U.S. consumers • Demonstrate to lenders that the consumer is a very risky borrower

What is the lowest and highest possible FICO® Score?

The FICO® Scores which are in use today by the vast majority of lenders fall within the 300-850 score range. This score range was introduced to establish an easy-to-understand, common frame of reference for lenders and consumers. Industry-specific FICO® Scores, such as those for auto lending or credit card lending, were developed to accommodate the unique characteristics of their respective industry and range from 250-900. Some lenders also use FICO® Scores NG, which range from 150-950.

Are FICO® Scores the only risk scores?

No. FICO® Scores are commonly used by lenders in the US, in fact, 90% of top lenders use FICO® Scores. However, lenders may use other scores to evaluate your credit risk. These include:

- **FICO Application risk scores.** Many lenders use scoring systems that include a FICO® Score but also consider information from your credit application.
- **FICO Customer risk scores.** A lender may use these scores to make credit decisions on its current customers. Also called “behavior scores,” these scores generally consider a FICO® Score along with information on how you have paid that lender in the past.
- **Other credit scores.** These scores may evaluate your credit file(s) differently than FICO® Scores, and in some cases a higher score may mean more risk, not less risk as with FICO® Scores.

Why are my scores at each of the three CRAs different?

In general, when people talk about “your credit score,” they’re talking about your FICO® Scores. But in fact, your FICO® Scores are calculated separately by each of the three consumer reporting agencies (CRAs)—using a formula that FICO has developed. It’s normal for your FICO® Scores from each CRA to be different for any of the following reasons:

- Your FICO® Scores are based on the credit information in your credit file at a particular CRA at the time your score is calculated. The information in your credit files is supplied by lenders, collection agencies and court records. Some of these sources may provide your information to just one or two of the CRAs, not all three. Differences in the underlying credit data will often result in differences in your FICO® Scores.
- 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 CRAs. In rare situations, this can result in your credit files not having certain account information, or including information that should be on someone else’s credit files. This is one reason why it is important for you to review your credit files at least annually.
- Lenders may report your credit information to one credit reporting agency today, and to another credit reporting agency tomorrow. This can result in one agency having more up-to-date information which in turn can cause differences in your FICO® Scores from both agencies.
- The CRAs may record the same information in slightly different ways which can affect your FICO® Scores.

Why is this FICO® Score different than other scores I’ve seen?

There are different credit scores available to consumers and lenders. FICO® Scores are the credit scores used by most lenders, but different lenders (such as auto lenders and credit card lenders) may use different versions of FICO® Scores. In addition, your FICO® Score is based on credit file data from a particular consumer reporting agency at a particular point in time, so differences in your credit files between the consumer reporting agencies or by date may create differences in your FICO® Scores. When reviewing a score, take note of the date, bureau credit file source, score type, and range for that particular score.

Why do FICO® Scores fluctuate/ change?

There are many reasons why your 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 particular consumer reporting agency at that time. So, as the information in your credit file at that bureau changes, your FICO® Scores can also change. Review your key score factors, which explain what factors from your credit report most affected a score.

Comparing key score factors from the two different time periods can help identify causes for changes in FICO® Scores. Keep in mind that certain events such as late payments or bankruptcy can lower your FICO® Scores quickly.

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

There's really not much to it; in order for a FICO® Score to be calculated, a credit file must contain these minimum requirements:

- At least one account that has been open for six months or more
- At least one account that has been reported to the credit reporting agency within the past six months
- No indication of deceased on the credit file (Please note: if you share an account with another person and the other account holder is reported deceased, it is important to check your credit file to make sure you are not impacted).

Note: These minimum requirements vary slightly for FICO® Scores NG.

What are key score factors?

When a lender receives your FICO® Score, "key score factors" are also delivered, which are the top factors that affected the score.

My lender recently changed the version of FICO® Score they use. Why do lenders change?

To keep up with consumer trends and the evolving needs of lenders, FICO periodically updates its scoring models. As a result, there are multiple FICO® Score versions—base FICO® Scores (and their updates) and industry-specific FICO® Scores (and their updates). Just as you may update your computer or mobile phone applications, lenders update the software they use, including their version of FICO® Scores, to keep current.

Who or what is FICO?

Founded in 1956, Fair Isaac Corporation (FICO) uses advanced math and analytics to help businesses make smarter decisions. One of FICO's inventions is FICO® Scores, which are the most widely used credit scores in lending decisions. It is important to note that while FICO works with the consumer reporting agencies (CRAs) 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.

Access to Credit

Does a FICO® Score alone determine whether I get credit?

No. Most lenders use a number of factors to make credit decisions, including a FICO® Score. Lenders may look at information such as the amount of debt you can reasonably handle given your income, your employment history, and your credit history. Based on their review of this information, as well as their specific underwriting policies, lenders may extend credit to you even with a low FICO® Score, or decline your request for credit even with a high FICO® Score.

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, 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 won't be paying interest each month so the high APR won't hurt your financial position.

- Those unable to get approved for a traditional credit card may be able to open a secured credit card to build 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, keeping balances low, paying off balances each month, and not missing payments are important for responsible financial health management.

How can I better understand my financial health?

Your FICO® Scores reflect credit payment patterns over time with more of an emphasis on recently reported information than older information. Below is some general information about shaping your financial future:

- The key score factors provided with your FICO® Score represent the main areas of credit practices that impact your financial health.
- Consumers with a moderate number of credit accounts on their credit report generally represent lower risk than consumers with either a large number or a very limited number of credit accounts. Opening accounts solely for a better credit picture probably won't impact a FICO® Score and, in some instances, may even lower the score.
- People who continually pay their bills on time tend to appear less risky to lenders. Collections and delinquent payments, even if only a few days late, can have a major negative impact on your FICO® Scores.
- People who stay caught up on amounts due and continue to pay their bills on time are generally viewed as less risky to lenders. Especially after missing payments, getting back on track with paying bills on time will have an impact on your financial health. Older credit problems have less impact on your FICO® Score than recent ones, so poor credit performance won't haunt you forever. The impact of past credit problems on your FICO® Scores fades as time passes and as recent good payment patterns show up on a credit file. And your FICO® Scores weigh any credit problems against any positive information that indicates that you're responsibly managing your financial health.
- Creditors and legitimate credit counselors may be able to provide direction to people who are having trouble responsibly managing their financial health. Seeking assistance from a credit counseling service will not hurt FICO® Scores.
- High outstanding credit card debt can negatively impact your FICO® Scores.
- Paying down total revolving (credit card) debt, rather than moving it from one credit card to another, is a responsible financial health management practice.
- Most public records and collections stay on a person's credit report for no more than seven years—though bankruptcies may remain for up to 10 years. However, as these items age, their impact on a FICO® Score gradually decreases, and people can re-establish a good credit history with ongoing responsible financial health management.
- People who show moderate and conscientious use of revolving accounts, such as having low balances and paying them on time, generally demonstrate responsible financial behavior. Having credit cards and installment loans (and making timely payments) will positively impact financial health. People with no credit cards, for example, tend to be higher risk than people who have managed credit cards responsibly.
- Typically, the presence of "inquiries"—the number of requests from a lender for your credit reports when you apply for loans—on a credit report has only a small impact, carrying much less importance than late payments, the amount owed, and length of time a person has used credit. FICO® Scores consider recent inquiries less as time passes, provided no new inquiries are added. Too many "inquiries can negatively affect a FICO® Score. However, FICO® Scores treat multiple inquiries from auto, mortgage, or student loan lenders

within a short period of time as a single inquiry because when purchasing a house or a car it is customary to shop for the best rate, resulting in more inquiries.

- Closing unused credit cards as a short-term strategy to increase a FICO® Score can actually have the opposite effect and lower a FICO® Score.
- For people who have been using credit for only a short time, opening a lot of new accounts too quickly can lower a FICO® Score.

How long will negative information remain on my credit files?

It depends on the type of negative information. Here's the basic breakdown of how long different types of negative information will remain on your credit files:

- Late payments: 7 years
- Bankruptcies: 7 years for a completed Chapter 13, and 10 years for Chapters 7 and 11
- Foreclosures: 7 years
- Collections: Generally, about 7 years, depending on the age of the debt being collected
- Public Record: Generally 7 years, although unpaid tax liens can remain indefinitely

Keep in Mind: For all of these negative items, the older they are the less impact they will have on your FICO® Scores. For example, a collection that is 5 years old will hurt much less than a collection that is 5 months old.

Do FICO® Scores change that much over time?

It's important to note that your FICO® Scores are calculated each time they're requested; either by you or a lender. And each time a FICO® Score is calculated, it's taking into consideration the information that is in your credit file at a particular consumer reporting agency at that time. So, as the information in your credit file changes, your FICO® Scores can also change.

How much your FICO® Scores change from time to time is driven by a variety of factors such as:

- Your current credit profile—how you have managed your financial health to date will affect how a particular action may impact your scores. For example, new information in your credit file, such as opening a new credit account, is more likely to have a larger impact for someone with a limited credit history as compared to someone with a very full credit history.
- The change being reported—the "degree" of change being reported will have an impact. For example, if someone who usually pays bills on-time continues to do so (a positive action) then there will likely be only a small impact on his or her FICO® Scores one month later. On the other hand, if this same person files for bankruptcy or misses a payment, then there will most likely be a substantial impact on their score one month later.
- How quickly information is updated—there is sometimes a lag between when you perform an action (like paying off your credit card balance in full) and when it is reported by the creditor to the consumer reporting agencies. It's only when the consumer reporting agency has the updated information that your action will have an effect on your FICO® Scores.

Keep in Mind: Small changes in financial health management can be important to obtain a certain FICO® Score level or to reach a certain lender's FICO® Score "cutoff" (the point above which a lender would accept a new application for credit, but below which, the credit application would be denied).

What if I'm turned down for credit?

If you have been turned down for credit, the Equal Credit Opportunity Act (ECOA) gives you the right to obtain the reasons why within 30 days. You are also entitled to a free copy of your credit reports within 60 days, which you can request from each of the consumer reporting agencies. If a FICO® Score was a primary part of the lender's decision, the lender may use the key score factors or reason codes to explain why you didn't qualify for the credit.

How do I get my free credit report?

You can get one credit report from each of the three major consumer reporting agencies once every 12 months.

Can I transfer my credit files from another country to the US consumer reporting agencies?

Credit files and credit histories do not transfer from country to country. There are legal, technical and contractual barriers that prevent a person from transferring their credit files or history to a different country. Unfortunately, this often means that a new immigrant to the US will need to establish a new credit history.

Why did my lender lower my credit limit?

Some banks are lowering credit lines and closing credit card or revolving accounts that have had little or no recent activity. These actions can hurt your score if they result in higher credit utilization (proportion of balance to credit limit); therefore, preserving credit lines by keeping credit card accounts open and using them frequently—while, at the same time, maintaining low balances—can help a score from being negatively affected.

Do I need to keep my utilization ratio below 30% to have no impact on my score?

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

Credit Card Impacts to FICO® Scores

Should I take advantage of promotional credit card offers?

Generally, opening new accounts can indicate increased 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 generally 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 impact a FICO® Score?

Yes, but not in the way you might expect. And, while closing an account may be a good strategy for responsible financial health management in some cases, it also may have a negative impact on your FICO® Scores.

FICO® Scores take into consideration something called a "credit utilization ratio". This ratio or proportion basically 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. This is because, in general, people with higher credit utilization ratios are more likely to default on loans. So, by closing an old or unused card, you are essentially wiping away some of your available credit and thereby increasing your credit utilization ratio.

It's a bit tricky, so here's an example:

Say you have three credit cards.

- *Credit card 1 has a $500 balance and a $2,000 credit limit.*
- *Credit card 2 is an unused card with a zero balance and a $3,000 limit.*
- *Credit card 3 has a $1,500 balance and a $1,500 limit.*

In this scenario your credit utilization ratio looks like this:

Total balances = $2,000 ($500 + $0 + $1,500)

Total available credit = $6,500 ($2,000 + $3,000 + $1,500)

Credit utilization ratio = 30% (2,000 divided by 6,500)

Now, if you decide to close credit card 2 because it's an old card that you never use, your credit utilization ratio looks like this:

Total balances = $2,000 ($500 + $1,500)

Total available credit = $3,500 ($2,000 + $1,500)

Credit utilization ratio = 57% (2,000 divided by 3,500)

You can see that your utilization ratio rose from 30% to 57% by closing the unused credit card.

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

There are a number of different things to consider when managing credit card debt. We'll touch on a few of the key things of which to be aware.

The advantage of having more than one credit card

People who only have one credit card available and are coming close to maxing out that card, might consider applying for another card in terms of how it affects their FICO® Scores. It has to do with what's called credit utilization.

Utilization measures how much of your credit you are using in relation to your total available credit. If you have one credit card with $500 charged to it and a credit limit of $1,000, then your utilization is 50%. There's no ideal utilization to shoot for, because as with most things, it depends on everything else on your file. But in terms of the risk of hurting FICO® Scores, people who keep their utilization on any one card below 50% will see less negative impact to their FICO® Scores. Research has shown that people who max out a single credit card are more likely to miss future payments, and therefore FICO® Scores consider people using more of their available credit as more risky than people who are using very little of their available credit.

Disadvantages of having a large number of credit cards

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.

Mortgage Impacts to FICO® Scores

Are the alternatives to fore-closure 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. This is not to say that these may not be better options in some situations; it's just that 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 has the opportunity to affect multiple accounts and therefore has potential to have a greater negative impact on your FICO® Scores.

How does a mortgage modification affect the borrower's FICO® Score?

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 impact on his or her FICO® Scores.

Will contacting my mortgage servicer affect a FICO® Score?

Simply contacting your servicer with questions has no effect on your FICO® Scores. If your servicer needs to check your credit, they must get your permission first. A credit check could result in an inquiry in your credit file, which can have a small impact on your scores.

Any action after that may also impact your FICO® Scores—for example, if you pursue refinancing or loan modifications.

How does refinancing affect a 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 impact 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 impact 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 impact the score more than if the terms of the existing loan are simply changed.

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. That's why staying credit savvy and maintaining a good credit rating remains so important.

How long will a foreclosure affect a FICO® Score?

A foreclosure remains in your credit files for seven years, but its impact to 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 it will ruin your scores for a very long time. In fact, 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.

Student Loan Impacts to FICO® Scores

How do FICO® Scores consider student loan shopping?

The growth of the student loan industry has increased public interest in how lenders assess the credit risk of young college-bound adults. Both large and small lenders often use FICO® Scores to help them underwrite student loans. How FICO credit scoring formulas treat credit inquiries depends on the way in which those inquiries are reported by lenders to each of the three consumer reporting agencies. If the inquiries are reported by the lender in a manner that indicates rate shopping for a single loan (such as a mortgage, auto, or student loan), FICO scoring formulas typically reflect that in its calculation of a score. In general, student loan shopping inquiries made during a focused time period will have little to no impact on a score. In the rare instance in which a credit inquiry related to a student loan is not coded so that it receives our special rate-shopping inquiry logic, that inquiry typically would decrease a FICO® Score by only a few points.

What's the best advice for student loans shoppers to minimize the impact to their FICO® Scores?

As you're shopping for the best student loan rate, the lenders you approach may request your credit reports or your FICO® Score (from one or more of the three consumer reporting agencies) to check your credit standing. Inquiries generally won't affect a score if rate shopping is finished in a reasonable amount of time, which is made easier by researching rates ahead of time and deciding from which companies to get quotes. It's advantageous for consumers to finish rate shopping and finalize a loan within 45 days. Not only will loan rates be easier to compare when the quotes come only a few days apart, but any impacts to a FICO® Score will be minimized.

Bankruptcy and Public Record Impacts to FICO® Scores

What are the different categories of late payments and do they 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. So this means that a recent late payment could be more damaging to a FICO® Score than a number of 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 (written off as a loss because of severe delinquency). Of course a 90-day late is worse than a 30-day late, but the important thing to understand is that people who continually pay their bills on time tend to appear less risky to lenders. However, for people who continue not to pay debt, and their creditor either charges it off or sends it to a collection agency, it is considered a significant event with regard to a score and will likely have a severe negative impact.

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 and getting current before the debt becomes a judgment or goes to a collections agency will have a positive effect on a score. However, **you can never again get an account to a "current" status once it becomes a judgment or is turned over to a collection agency**.

How do FICO® Scores consider a bankruptcy, and how can I minimize any negative effects?

A bankruptcy is considered a very negative event by FICO® Scores. How much of an impact it will have on your score will depend on your entire credit profile. For example, someone that had spotless credit and a very high FICO® Score could expect a huge drop in their score. On the other hand, someone with many negative items already listed in their credit files might only see a modest drop in their score; that's because their lower score is already reflective of their higher risk level. Another thing to note is that the more accounts included in the bankruptcy filing, the more of an impact on a FICO® Score.

While it may take up to ten years for a bankruptcy to fall off of your file, the impact of the bankruptcy will lessen over time.

If you file for bankruptcy, here are some things you should do to make sure your creditors are accurately reporting the bankruptcy filing:

- Check your credit files to ensure that accounts that were not part of the bankruptcy filing are not being reported with a bankruptcy status.
- Make sure your bankruptcy is removed as soon as it is eligible to be "purged" from your credit file.

While there are many things to consider when filing for bankruptcy, understand that the bankruptcy will impact your FICO® Scores for as long as it is listed on your credit files.

What are the different types of bankruptcy and how is each considered by a FICO® Score?

A bankruptcy is considered a very negative event by FICO® Scores regardless of the type. As long as the bankruptcy is listed on your credit file, it will be factored into your scores. However, as the bankruptcy item ages, its impact on a FICO® Score gradually decreases. Typically, here is how long you can expect bankruptcies to remain on your credit files (from the date filed):

- Chapter 11 and 7 bankruptcies up to 10 years.
- Completed Chapter 13 bankruptcies up to 7 years.

These dates and time periods refer to the public record item associated with filing for bankruptcy. All of the individual accounts included in the bankruptcy should be removed from your credit files after 7 years.

How do public records and judgments affect a FICO® Score?

Public records and FICO® Scores

Public records are legal documents created and maintained by Federal and local governments, which are usually accessible to the public. Some public records, such as divorces, are not considered by FICO® Scores, but adverse public records, which include bankruptcies, judgments and tax liens, are considered by FICO® Scores. FICO® Scores can be affected by the mere presence of an adverse public record, whether paid or not.

Adverse public records will have less effect on a FICO® Score as time passes, but they can remain in your credit files for up to ten years based on what type of public record it is. Judgments specifically remain in your credit files for seven years from the date filed.

A judgment in your credit file

Judgments will almost always have a negative effect. Creditors, collections agencies, and legitimate credit counselors may be able to provide direction, or negotiate a payment plan, to people when they are having trouble responsibly managing their financial health, and before a debt turns into a judgment.

Credit missteps – how their effects on FICO® Scores vary

People can run into financial difficulties that impact their FICO® Scores. Some difficulties may change your score by a small amount, while others can drop your score significantly. What your score was before the difficulty appeared in your credit files also can make a difference.

Here is a comparison of the impact that credit problems can have on FICO® Scores of two different people: Alex and Benecia. Note that their initial FICO® Scores are 100 points apart.

First, let's give you a general snapshot of Alex's and Benecia's credit profiles:

Alex has a FICO® Score of 680 and:	**Benecia has a FICO® Score of 780 and:**
Has six credit accounts, including several active credit cards, an active auto loan, a mortgage, and a student loan	Has ten credit accounts, including several active credit cards, an active auto loan, a mortgage and a student loan
An eight-year credit history	A fifteen-year credit history
Moderate utilization on his credit card accounts (his balances are 40-50% of his limits)	Low utilization on her credit card accounts (her balances are 15-25% of her limits)

Alex has a FICO® Score of 680 and:	Benecia has a FICO® Score of 780 and:
Two reported delinquencies: a 90-day delinquency two years ago on a credit card account, and an isolated 30-day delinquency on his auto loan a year ago	Never has missed a payment on any credit obligation
Has no accounts in collections and no adverse public records on file	Has no accounts in collections and no adverse public records on file

Now let's take a look at how different credit missteps impact their FICO® Scores:

	Alex	Benecia
Current FICO® Score	680	780
Score after one of these credit missteps is added to each credit file:		
Maxing out (charging up to the limit) a credit card	650-670	735-755
A 30-day delinquency	600-620	670-690
Settling a credit card debt for less than owed	615-635	655-675
Foreclosure	575-595	620-640
Bankruptcy	530-550	540-560

As you can see, maxing out (charging up to the limit) a credit card has the smallest impact of these credit missteps. Declaring bankruptcy has the biggest impact to their scores. For someone like Benecia with a high FICO® Score of 780, declaring bankruptcy could lower her score by as much as 240 points. That's because FICO® Scores generally give the most weight to payment history. Bankruptcy is included in one's payment history. Also, a bankruptcy often involves more than one credit account, compared with a foreclosure which often involves just a single account.

High scores can fall farther. Notice that Benecia would lose more points for each misstep than would Alex, even though her FICO® Score starts out 100 points higher. That's because Alex's lower score of 680 already reflects his riskier past behavior. So the addition of one more indicator of increased risk on his credit file is not quite as significant to his score as it is for Benecia.

Settling a credit card debt is the third credit problem listed. It means that the lender agrees to accept less than the amount owed on the account. A settled account indicates a higher level of risk and typically happens only when an account is overdue. So in Benecia's case, to help make the debt settlement plausible we also added a 30-day delinquency to her credit file. Her new FICO® Score reflects both changes. Alex's credit file already included a recent delinquency.

Are you more like Alex or Benecia? Many different combinations of information in a credit file can produce a FICO® Score of 680 or 780. Depending on what's on your own credit files, your experience may vary from that of Alex or Benecia, or be similar. In any case, if a person knows what's in their credit reports at each of the three major consumer reporting agencies, he or she may be able to better understand the severity of impact of a financial misstep to their score.

General Impacts to FICO® Scores

What are inquiries and how do they affect FICO® Scores?

Credit inquiries are requests by a "legitimate business" to check your credit.

Inquiries may or may not affect FICO® Scores. Credit inquiries are classified as either "hard inquiries" or "soft inquiries"—only hard inquiries have an effect on FICO® Scores.

Soft inquiries are all credit inquiries where your credit is NOT being reviewed by a prospective lender. FICO® Scores do not take into account any involuntary (soft) inquiries made by businesses with which you did not apply for credit, inquiries from employers, or your own requests to see your credit file. Soft inquiries also include inquiries from businesses checking your credit to offer you goods or services (such as promotional offers by credit card companies) and credit checks from businesses with which you already have a credit account. If you are receiving FICO® Scores for free from a business with which you already have a credit account, there is no additional inquiry made on your credit report.

FICO® Scores take into account only voluntary (hard) inquiries that result from your application for credit. 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 count as a single inquiry. One exception occurs when you are "rate shopping". Your FICO® Scores consider all inquiries within a reasonable shopping period for an auto, student loan or mortgage as a single inquiry.

The relative information with a hard inquiry that can be factored into FICO® Scores include:

- Number of recently opened accounts, and proportion of accounts that are recently opened, by type of account.
- Number of recent credit inquiries.
- Time since recent account opening(s), by type of account.
- Time since credit inquiry(ies).

For many people, one additional hard credit inquiry (voluntary and initiated by an application for credit) may not affect their FICO® Scores at all. For others, one additional inquiry would take less than 5 points off a FICO® Score. Inquiries can have a greater impact, however, if you have few accounts or a short credit history.

Does applying for many credit accounts hurt FICO® Scores more than applying for only one?

The short answer is yes—applying for many new accounts often hurts your FICO® Scores more than applying for a single new account. There is no magic number of applications to which you should limit yourself. However, FICO® Scores consider recent inquiries less as time passes, provided no new inquiries are added.

Applying for a single new credit card may have a small impact to a FICO® Score, but if you apply for several credit cards, that can have a much greater effect on your FICO® Scores. Generally, rate shopping for home or auto loans will have less of an impact on your FICO® Scores than comparison shopping for credit cards or other types of credit accounts. A better practice when determining the best credit card is to read about the features of each card and then only apply for the one that has the features you want from your new card.

Is there a best way to go about applying for new credit to minimize the effect to a FICO® Score?

Applying for new credit only accounts for about 10% of a FICO® Score, so the impact 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 impact on your FICO® Scores if you only have a few accounts or a short credit history.

That said, there are definitely 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 take a 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 (for accounts already opened). While a request for an increased limit may count as an inquiry just like opening a new card would, it won't reduce the average age of your credit accounts, which is also important to your FICO® Scores.

If getting the limit raised on an existing card isn't an option, then applying for the fewest number of credit cards will have the least negative impact to your FICO® Scores. For example, if a person needed an extra $5,000, getting one card with a $5,000 limit rather than two cards each with a $2,500 limit results in less impact to your scores. 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 more risky 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 to check your credit. 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 impact to your FICO® Score.

Given rate shopping for home, auto and student loans has no immediate impact, 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 that fall in a typical shopping period as just one inquiry. So, again, doing rate shopping within a matter of weeks as opposed to a matter of months limits the longer-term impact to your scores as well.

Do employers use FICO® Scores in hiring decisions?

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

Are FICO® Scores used in insurance underwriting?

FICO® Scores were designed to help lenders by rank-ordering consumers according to the likelihood they will become at least 90 days late repaying a creditor within the next 24 months. FICO also offers FICO® Insurance Scores, credit-based insurance scores specifically designed for the insurance industry to help predict future auto and home insurance losses.

Are FICO® Scores unfair to minorities?

No. FICO® Scores do not consider your gender, race, nationality or marital status. In fact, 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. In other words, at a given FICO® Score, non-minority and minority applicants are equally likely to pay as agreed.

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 credit habits and credit profile. However, when you become married your spouse's credit habits and credit profile may have an impact on yours. For example, if you have a credit card in both of your names and it doesn't get paid on time, that can affect both of your FICO® Scores—and not in a good way.

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

While putting more money towards savings is usually a good idea, it's not necessarily going to impact your FICO® Scores. FICO® Scores do not consider the amount of disposable cash (savings accounts, certificates of deposit or cash in your cookie jar) you have at any given time. Therefore, the amount of money you keep in savings doesn't impact your FICO® Scores.

As far as spending less, that could have an effect on 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 cards, then you may notice an impact in your FICO® Scores. FICO® Scores factor in the balance on revolving credit accounts (for example, credit cards).

If lenders have different lending requirements, how can I know if I qualify for affordable financing?

The surest way to get the most up-to-date and accurate information is to contact your lender for their FICO® Score requirements before shopping for credit. You can also check your current FICO® Scores so you'll know where you stand in the eyes of these potential lenders.

Can accounts that aren't in my credit reports affect a FICO® Score?

Though your FICO® Scores capture a pretty accurate picture of your credit history, not every account is recorded. Your good history of rental and utilities payments may not be listed in your credit reports. Even though your landlord, the cable and cell phone providers are pleased with your timely payments, this positive information may not be reported to the consumer reporting agencies. That being said, not paying these bills on time can have a negative effect on your financial health and your FICO® Scores:

Reported delinquencies.

Even though your good payment history isn't reported, if you go late on these bills, your landlord or utility department has the right to report your bills as delinquent to the consumer reporting agencies. If the bill continues to go unpaid, a judgment could be obtained against you in small claims court, and/or your account could be turned over to a collection agency. Any of these blemishes can then show up in your credit reports and can be as harmful to your FICO® Scores as the more commonly reported items such as late payments on loans or credit cards.

Future referrals.

The next time you need to move, your potential landlord is likely going to require a copy of your credit report and a FICO® Score. In addition, he/she may 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 that the rent is paid late or incomplete. As always, people who consistently pay their bills on time appear to be less risky to lenders and other types of creditors.