What Is a Credit Score Anyway? This Number Really Does Matter

Here's everything you need to know about your credit score and how to improve it.

Some card details on this page may be out of date.

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OUR EXPERTS

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Your credit score sets the groundwork for your financial life. It's the bedrock that all of your financial products rest upon.

Whether you need to take out a mortgage, buy a car, qualify for a credit card, refinance student loans or rent an apartment, it's all based on your credit score. If you aren't familiar with credit scores and how they impact nearly every facet of your financial life, here's a primer.

Read more: The best credit monitoring services

What is a credit score?

Your credit score is a three-digit number that's calculated based on information in your credit report. When applying for credit, lenders check your credit report and corresponding score -- among other factors like income -- to determine how likely you are to repay what you borrow.

A bad credit score could mean either being denied a loan or facing a higher interest rate. An excellent score means you pay less in interest since you've proven you're responsible with credit.

What's a good credit score?

There are two primary credit scoring models: FICO, which stands for Fair Isaac Corporation, and VantageScore. Both have scores ranging from 300 to 850. Here's how they break down.

FICO Score	VantageScore
Poor – 300-579	Very poor – 300-499
Fair – 580-669	Poor – 500-600
Good – 670-739	Fair – 601-660
Very good – 740-799	Good – 661-780
Exceptional – 800-850	Excellent – 781-850

Why are credit scores important?

Any time you want to get a credit card or apply for a loan, expect a hard credit check. If you have a spotty credit history riddled with late payments, defaults and high credit usage, you might not get approved for credit options in the future. And even if you do get approved for a loan, you'll likely have a higher interest rate than someone with the same loan and the same finances but a better credit score. Especially on long-term or high-value loans like mortgages, this could mean thousands, or tens of thousands, of dollars of extra interest paid over the life of the loan.

How are credit scores used?

Anytime you want to borrow money, lenders will check your credit score. Think of:

- Car and auto loans
- Mortgages
- Personal loans
- Student loans
- Credit cards

The lender will use your credit score to determine whether to approve your loan application, as well as what interest rate to offer you. All other factors equal, a higher credit score usually gives you a better chance of having your application approved and a lower interest rate.

Some people might also consider your credit score as an informal metric for how trustworthy or responsible you are. That's why you might find a landlord or employer asking you to undergo a credit check before they'll rent to you or hire you.

How are credit scores calculated?

Credit scores are calculated based on your credit report, which contains information compiled by the three credit bureaus: Equifax, Experian and TransUnion. Your credit report covers everything from payment history to different types of credit use. Here's how FICO breaks down its score:

Payment history, 35%: A history of on-time payments is the biggest determining factor in your credit score. Creditors want to know if you can pay back the money you owe on time every month and until your repayment is completed.

Amounts owed, 30%: If you max out your credit cards every month, the amount you owe relative to your available credit -- or credit utilization -- is high. This tells lenders you have a lot of outstanding debt and may not be able to repay it all.

Length of credit history, 15%: This is how long you've had credit in your name. If you took out student loans for college, this counts and could give you a longer credit history than you realize. It's not just open accounts; closed accounts are calculated as well.

New credit, 10%: When you apply for a new credit card or loan, you'll receive a hard credit inquiry that could cause your score to temporarily dip. It will rebound in a couple of months, as long as the minimum payments are made on time every month. If you manage your loan responsibly, it could even increase your score in the long run as you build a history of on-time payments.

Credit mix, 10%: The variety of credit you have tells lenders you can handle many different types of accounts. While it doesn't carry as much weight as other factors, it's still a piece of the credit score puzzle.

VantageScore's scoring model includes all these factors, but they're weighted differently and may have slightly different names.

How do I increase my credit score?

If you have a lower credit score, it may not be for the same reason as someone else. How you improve your credit score depends on a few factors and what works best for you in your individual financial situation.

If you're behind on payments: One late payment can cause your credit score to drop. Late payments or loan defaults will make your score plummet. Proof of regular, on-time payments shows lenders you can borrow money and pay it back on time. Start making minimum payments by the due date every month and watch your score slowly creep up.

If you're using too much credit: A high credit utilization ratio -- or the amount you owe relative to your available credit -- should be kept low. A best practice is to keep your utilization below 30% (and ideally under 10%) at any given time. If you're in good standing with your credit card issuers, you can request a credit increase. If granted, a credit line increase will lower your overall utilization if your balances owed stay the same.

If you don't have a long enough credit history or varied credit mix: If you're new to credit or borrowing money, diversify your credit file by applying for new lines of credit, like a credit card. Try to limit how many new lines of credit you open each year. Every time you apply for credit, your credit score gets dinged with a hard credit inquiry. Too many credit inquiries can make your credit score drop. However, having more lines of credit that you manage responsibly can help raise your credit score in the long run. This is especially true if they're different types of credit, such as credit cards, auto loans, student loans and more.

How do I find out what my credit score is?

There are plenty of free ways to check your credit score, including:

- **Your bank:** Most banks let you check your credit score every month for free.
- **Your credit card issuer:** Many issuers have free credit monitoring services that give you access to an updated credit score every month.
- **Credit Karma:** Get a free credit score update from major credit bureaus like TransUnion and Equifax when you use Credit Karma.
- **Experian:** You can get your Experian credit report and your FICO credit score monthly, for free.

The bottom line

It's important to know what goes into your credit score and why you should work to improve it. Your credit score is how lenders know if you're a risky borrower or not, and it'll determine what loans you get approved for and the type of terms you get on your loans.

If your credit score isn't where you'd like it to be, consider using a secured credit card to increase it. Once your score is looking better, you can qualify for some of the best credit cards available.

FAQs

What’s the most widely used credit score model?

What’s the highest credit score you can get?

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Dori Zinn loves helping people learn and understand money. She's been covering personal finance for a decade and her writing has appeared in Wirecutter, Credit Karma, Huffington Post and more.