Your Credit Score: How is it Determined?

Credit, by definition, is your ability to borrow money. Information that is included on your credit report could sway a potential lender one way or another in deciding whether to extend credit to you. There are 3 major credit reporting bureaus:

- **Equifax**

  1-800-685-1111
  www.equifax.com

- **Experian**

  1-888-EXPERIAN (397-3742)
  www.experian.com

- **Trans Union**

  1-800-916-8800
  www.transunion.com

A credit report is more than just a list of the lenders and a person's payment history. Credit reports contain information that can be used to help lenders determine whether to extend credit to you. Here is a list of some of the things a credit report may list:

- anywhere you have applied for credit
- your name, social security number, and your spouse's name
- your current and previous addresses, name and address of your employer, as well as your income level
- information regarding lawsuits, foreclosures, repossessions, and whether you have filed for bankruptcy

Why are all these pieces of information listed on your credit report? Companies want to know whether you are reliable enough to pay back your debts. Not only do lenders look at your credit report, but insurance companies look for risk factors on it, employers can use it to screen applicants, and landlords can use it to screen tenants to determine if they are likely to pay the rent on time.

Lenders use all of the information on your report to derive a Fair Isaac Corporation (FICO) Credit Score, a number used to rate your credit worthiness. This score ranges between 300 and 850. According to

FICO, 40% of the population score at 690 or lower, while 40% score 745 or higher, with just 20% above 780.

Lenders want to know whether a borrower will repay a debt once a loan is extended. Then the lender can use the score to determine how much to lend you, and what interest rate to charge you. Lenders assign points to the various aspects of your credit report. Five factors are weighed heavily when making this calculation:

1. **Debt to income ratio**. This is the proportion of how much total debt you have relative to your income level. This is the single largest factor that creditors consider in determining whether or not to extend a loan or other credit to you. Even if you have no balance on a credit card, your credit limit is still added to the debt side of your debt-to-income ratio.
2. **Payment history**. This factor considers whether you have paid your debts on time, including mortgages, car notes, credit cards, store accounts and loans.
3. **Length of credit history**. Lenders look to see how long you have paid on your debts. Good past payment history can help sway a lender to loan you money if you've had recent issues that could negatively affect your ability to get the credit.
4. **Recent credit or applications for credit**. If a lender sees that they are the tenth place this month that you are trying to borrow from, it could send up red flags.
5. **The type of credit for which you are applying**. Lenders that will retain a security interest in collateral, such as a car or mortgage company, may be more willing to lend money to more 'at risk' borrowers when the lender knows that they can always take back the collateral in the event of default on payments.

Other factors that lenders look at to determine who is a good credit risk are:

1. **Education level**. The higher the better.
2. **Length of time at current residence**. If you move around a lot, you lose points, but if you relocate for a better job and show your income is higher, that helps get you points.
3. **Length of time at your current job**. The longer you have been at your job, the better risk you appear to be.
4. **Homeowner v. Renter**. Homeowners are considered better credit risks than renters.

Creditors like stability. If you can show you are a stable, reliable person who has the ability to repay your debts, you will be a much better credit risk to a potential lender.

Everyone should always review his or her credit report periodically. Errors can be made. Just a few points can make or break your ability to acquire new credit. Therefore, it's crucial to have an accurate credit report. Over the last few years, identity theft has become a bigger and bigger problem as well. An uncorrected error can cause years of stress and frustration. The credit reporting bureaus must correct any inaccurate information on your credit report. Check out the Amicus Curia Bankruptcy Resource Center section on correcting your credit report. Once corrected, the bureau will send you a free copy of the credit report showing that the inaccuracy was corrected.