



# FREQUENTLY ASKED QUESTIONS ABOUT FICO® SCORES

---

**FICO**® SCORE  
The score lenders use.®

# Table of Contents

|  |          |
|--|----------|
| <b><i>Introduction to Credit Scoring</i></b> .....   | <b>1</b> |
| What is in a credit report?.....   | 1        |
| How do I check my credit report for free?.....   | 1        |
| What if there’s an error on my credit report? .....  | 1        |
| What is a credit score? .....  | 1        |
| <b><i>About FICO® Scores</i></b> .....   | <b>2</b> |
| What is FICO?.....   | 2        |
| What are FICO® Scores? .....   | 2        |
| How are FICO® Scores different?.....   | 2        |
| What goes into FICO® Scores?.....  | 2        |
| What is left out of FICO® Scores? .....  | 4        |
| What is a good FICO® Score?.....   | 4        |
| What are score factors? .....  | 5        |
| What are the minimum requirements to calculate a FICO® Score? .....                        | 5        |
| How can FICO® Scores help me? .....  | 5        |
| Do I have more than one FICO® Score? .....   | 5        |
| Why is my FICO® Score different than other scores I have seen? .....                       | 6        |
| Why do FICO® Scores fluctuate/change? .....  | 6        |
| <b><i>New Credit</i></b> .....   | <b>6</b> |
| Does a FICO® Score alone determine whether I get credit? .....                             | 6        |
| What is a typical FICO® Score for someone new to credit? .....                             | 6        |
| How is a credit history established? .....   | 6        |
| What is a credit “inquiry”? .....  | 7        |
| Will my FICO® Scores drop if I apply for new credit?.....                                  | 7        |
| How can I minimize the effect to my FICO® Score when seeking new credit? .....             | 7        |
| <b><i>Credit Cards</i></b> .....   | <b>8</b> |
| Should I take advantage of promotional credit card offers?.....                            | 8        |
| Will closing a credit card account affect a FICO® Score?.....                              | 8        |
| What’s the best way to manage my growing credit card debt? .....                           | 8        |
| <b><i>Student Loans</i></b> .....  | <b>8</b> |
| What is the effect of paying student loans while in college versus after graduation? ..... | 8        |
| How are FICO® Scores affected by the combination of interest and principal? .....          | 9        |

|  |           |
|--|-----------|
| Does moving loans into forbearance affect FICO® Scores? .....                              | 9         |
| <b>Mortgages .....</b>   | <b>9</b>  |
| How long will a foreclosure affect a FICO® Score? .....                                    | 9         |
| Are the alternatives to foreclosure any better as far as FICO® Scores are concerned? ..... | 9         |
| How do loan modifications affect a FICO® Score? .....                                      | 9         |
| How does refinancing affect my FICO® Score? .....  | 10        |
| <b>Bankruptcy.....</b>   | <b>10</b> |
| How will a bankruptcy affect my FICO® Scores?.....   | 10        |
| <b>More about FICO® Scores &amp; Financial Health .....</b>                                | <b>10</b> |
| Do employers use FICO® Scores in hiring decisions? .....                                   | 10        |
| Are FICO® Scores used in insurance underwriting? .....                                     | 10        |
| Are FICO® Scores unfair to minorities? .....   | 10        |
| How are FICO® Scores calculated for married couples?.....                                  | 10        |
| How can I manage my credit and FICO® Score responsibly?.....                               | 11        |
| What’s the ideal utilization ratio? .....  | 11        |
| Will spending less and saving more affect a FICO® Score? .....                             | 11        |
| Do accounts that are not on my credit reports affect my FICO® Scores? .....                | 11        |
| What are the factors of late payments, and how do they affect FICO® Scores? .....          | 12        |
| How long will negative information remain on my credit files? .....                        | 12        |
| <b>Glossary of Credit Terms.....</b>   | <b>12</b> |
| Charge-off .....   | 12        |
| Collection .....   | 12        |
| Consumer Reporting Agency (CRA).....   | 12        |
| Credit account.....  | 13        |
| Credit file.....   | 13        |
| Credit history.....  | 13        |
| Credit limit .....   | 13        |
| Credit obligation .....  | 13        |
| Credit report .....  | 13        |
| Credit risk .....  | 13        |
| Credit score .....   | 13        |
| Default.....   | 13        |
| Delinquent .....   | 13        |
| Equal Credit Opportunity Act (ECOA).....   | 14        |
| Fair Credit Reporting Act (FCRA) .....   | 14        |

|                            |    |
|----------------------------|----|
| FICO .....                 | 14 |
| FICO® Industry Score ..... | 14 |
| FICO® Scores .....         | 14 |
| FICO® Score NG.....        | 14 |
| Inquiry .....              | 14 |
| Installment debt.....      | 14 |
| Permissible purpose.....   | 14 |
| Revolving credit/debt..... | 14 |
| Score factors .....        | 14 |
| Scoring model .....        | 15 |
| Utilization.....           | 15 |

## Introduction to Credit Scoring

When you apply for credit—such as a credit card, auto loan or mortgage—the company from which you are seeking credit checks your [credit report](#) from one or more of the three major [consumer reporting agencies](#). In addition to your credit report, they will most likely use a [credit score](#), such as a [FICO® Score](#), in their evaluation of [credit risk](#) before lending their money to you.

Each lender has its own process and policies for making decisions when reviewing a credit application. Most lenders consider a FICO® Score along with additional information, either from one or more of your credit reports or from supplemental information you provide with your application, such as your income.

### What is in a credit report?

Although each [consumer reporting agency](#) formats and reports this information differently, all [credit reports](#) contain basically the same categories of information.

- **Identifying Information** - Your name, address, Social Security number, date of birth and employment information. This information is not used in calculating [FICO® Scores](#); it is only used to identify you. Updates to this information come from information you supply to your lenders.
- **Credit Accounts** - Most lenders report information about each account you have established with them. They report the type of [credit account](#), the date you opened the account, your [credit limit](#) or loan amount, the account balance, and your payment history.
- **Credit Inquiries** - Your credit reports list the inquiries that lenders have made for your credit reports within the last two years. When you apply for a loan, you authorize your lender to ask for a copy of your credit reports. This is how inquiries appear on your reports.
- **Bankruptcies and Collections** - Consumer reporting agencies also collect bankruptcy (often found in the public record segment of a credit report) information from state and county courts, and [delinquencies](#) reported by collection agencies.

### How do I check my credit report for free?

You may get a free copy of your [credit report](#) from each of the three major [consumer reporting agencies](#) annually. To request a copy of your credit report, please visit: [www.annualcreditreport.com](http://www.annualcreditreport.com). Please note your free credit report will not include your [FICO® Score](#). Because your FICO® Score is based on the information in your credit report, it is important to make sure that the credit report information is accurate.

### What if there's an error on my credit report?

If you find an error on one or more of your [credit reports](#), contact the [consumer reporting agency](#) or the organization that provided the information to the agency. Both parties are responsible for correcting inaccurate or incomplete information in your report as required by the [Fair Credit Reporting Act](#).

[Equifax Disputes](http://www.ai.equifax.com/CreditInvestigation/home.action) (www.ai.equifax.com/CreditInvestigation/home.action)

[Experian Disputes](http://www.experian.com/blogs/ask-experian/credit-education/faqs/instructions-for-disputing-by-mail/) (www.experian.com/blogs/ask-experian/credit-education/faqs/instructions-for-disputing-by-mail/)

[TransUnion Disputes](http://www.transunion.com/credit-disputes/dispute-your-credit) (www.transunion.com/credit-disputes/dispute-your-credit)

### What is a credit score?

A credit score is a number summarizing your [credit risk](#), based on your credit data. A credit score helps lenders evaluate your credit profile and influences the credit that's available to you, including loan and credit card approvals, interest rates, [credit limits](#) and more.

## About FICO® Scores

### What is FICO?

[FICO](#), formerly known as Fair Isaac Corporation, is the company that invented [FICO® Scores](#). Starting in the 1950s, FICO sparked a revolution in [credit risk](#) assessment by pioneering credit risk scoring for credit grantors. This new approach to measuring risk enabled banks, retailers and other businesses to improve their performance and to expand consumers' access to credit. Today, FICO® Scores are widely recognized as the industry standard for measuring credit risk.

It is important to note that while FICO works with the [consumer reporting agencies](#) 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](#).

### What are FICO® Scores?

[FICO® Scores](#) are the most widely used [credit scores](#). Each FICO® Score is a three-digit number calculated from the data on your [credit reports](#) at the three major [consumer reporting agencies](#)—Experian, TransUnion and Equifax. Your FICO® Scores predict how likely you are to pay back a [credit obligation](#) as agreed. Lenders use FICO® Scores to help them quickly, consistently and objectively evaluate potential borrowers' [credit risk](#).

### How are FICO® Scores different?

Not all [credit scores](#) are [FICO® Scores](#). Because FICO® Scores are the credit scores most widely used by lenders—FICO® Scores are used in over 90% of U.S. credit lending decisions<sup>1</sup>—knowing your FICO® Scores is the best way to understand how potential lenders could evaluate your [credit risk](#) when you apply for a loan or credit. Other credit scores, which use scoring formulas different from FICO's, may not give you an accurate representation of the scores your lender uses when assessing your credit profile.

### What goes into FICO® Scores?

[FICO® Scores](#) are calculated from the credit data in your [credit report](#). This data is grouped into five categories; below is a detailed breakdown of the relative importance of each category. As you review this information, keep in mind that:

- FICO® Scores take into consideration all of these categories, not just one or two.
- The importance of any factor (piece of information) depends on the information in your entire credit report.
- FICO® Scores look only at the credit-related information on a credit report.
- FICO® Scores consider both positive and negative information on a credit report.



<sup>1</sup> Mercator Advisory Group, Analysis, 2018

**1. Payment History - Approximately 35% of a FICO® Score is based on this information:**

- Payment information on many types of accounts:
  - Credit cards
  - Retail accounts
  - [Installment loans](#)
  - Finance company accounts
- Bankruptcy and [collection](#) items
- Details on late or missed payments (“[delinquencies](#)”), bankruptcies, and collection items
- Number of accounts that show no late payments, or are currently paid as agreed

**2. The Amounts You Owe - Approximately 30% of a FICO® Score is based on this information:**

- Amount owed on all accounts
- Amount owed on different types of accounts
- Balances owed on certain types of accounts
- Number of accounts which carry a balance
- How much of the total credit line is being used on [revolving credit accounts](#)
- How much is still owed on installment loans, compared with the original loan amounts

Credit [utilization](#) is one of the most important factors evaluated in this category, considers the amount you owe compared to how much credit you have available. While lenders determine how much credit they are willing to provide, you control how much you use. FICO’s research shows that people using a high percentage of their available [credit limits](#) are more likely to have trouble making some payments now or in the near future, compared to people using a lower level of available credit.

Having [credit accounts](#) with an outstanding balance does not necessarily mean you are a high-risk borrower with a low FICO® Score. A long history of demonstrating consistent payments on credit accounts is a good way to show lenders you can responsibly manage additional credit.

**3. Length of Credit History - Approximately 15% of a FICO® Score is based on this information:**

In general, a longer [credit history](#) will increase a FICO® Score, all else being equal. However, even people who have not been using credit long can get a good FICO® Score, depending on what their credit report says about their payment history and amounts owed. Regarding length of history, a FICO® Score takes into account:

- How long credit accounts have been established. A FICO® Score can consider the age of the oldest account, the age of the newest account and the average age of all accounts.
- How long specific credit accounts have been established.
- How long it has been since you used certain accounts.

**4. New Credit - Approximately 10% of a FICO® Score is based on this information:**

FICO’s research shows that opening several credit accounts in a short period of time represents greater risk—especially for people who do not have a long credit history. In this category, a FICO® Score takes into account:

- How many new accounts have been opened.
- How long it has been since a new account was opened.
- How many recent requests for credit have been made, as indicated by [inquiries](#) to the [consumer reporting agencies](#).
- Length of time since inquiries from credit applications were made by lenders.
- Whether there is a good recent credit history, following any past payment problems.

Looking for an auto, mortgage or student loan may cause multiple lenders to request your credit report, even though you are only looking for one loan. In general, FICO® Scores compensate for this shopping behavior in the following ways:

- FICO® Scores ignore auto, mortgage, and student loan inquiries made in the 30 days prior to scoring, so the inquiries won't affect the scores of consumers who apply for a loan within 30 days.
- After 30 days, FICO® Scores typically count inquiries of the same type (i.e., auto, mortgage or student loan) that fall within a typical shopping period as just one inquiry when determining your score.

#### 5. Types of Credit in Use - Approximately 10% of a FICO® Score is based on this information:

FICO® Scores consider the mix of credit cards, retail accounts, installment loans, finance company accounts and mortgage loans. It is not necessary to have one of each, and it is not a good idea to open a credit account you don't intend to use. In this category, a FICO® Score takes into account:

- What kinds of credit accounts are on the credit report? Whether there is experience with both [revolving](#) and installment accounts, or has the credit experience been limited to only one type?
- How many accounts of each type exist? A FICO® Score also looks at the total number of accounts established. For different credit profiles, how many is too many will vary depending on the overall credit picture.

#### What is left out of FICO® Scores?

[FICO® Scores](#) consider a wide range of information on a [credit report](#). However, they do NOT consider:

- Race, color, religion, national origin, age, sex and marital status
- Salary, or other employment information (however, lenders may consider this information separately)
- Where the consumer lives
- Any interest rate being charged on a credit card or other account
- Any items reported as child/family support obligations
- Certain types of [inquiries](#)
- Any information not found in the credit report

#### What is a good FICO® Score?

[FICO® Scores](#) generally range from 300 to 850, where higher scores demonstrate lower [credit risk](#) and lower scores demonstrate higher credit risk (note: some types of FICO® Scores have a slightly broader range). What's considered a "good" FICO® Score varies, since each lender has its own standards for approving credit applications, based on the level of risk it finds acceptable. So one lender may offer its lowest interest rates to people with FICO® Scores above 730, while another may only offer it to people with FICO® Scores above 760.

The chart below provides a breakdown of ranges for FICO® Scores found across the U.S. consumer population. Again, each lender has its own credit risk standards, but this chart can serve as a general guide of what a FICO® Score represents.

| Score range   | Rating      | What FICO® Scores in this range mean   |
|---------------|-------------|--|
| 800 or Higher | Exceptional | <ul style="list-style-type: none"> <li>• Well above the average score of U.S. consumers</li> <li>• Demonstrates to lenders that the consumer is an exceptional borrower</li> </ul> |
| 740 to 799    | Very Good   | <ul style="list-style-type: none"> <li>• Above the average of U.S. consumers</li> <li>• Demonstrates to lenders that the consumer is a very dependable borrower</li> </ul>         |
| 670 to 739    | Good        | <ul style="list-style-type: none"> <li>• Near or slightly above the average of U.S. consumers</li> <li>• Most lenders consider this a good score</li> </ul>                        |



| Score range    | Rating | What FICO® Scores in this range mean  |
|----------------|--------|---|
| 580 to 669     | Fair   | <ul style="list-style-type: none"> <li>Below the average of U.S. consumers</li> <li>Some lenders will approve loans with this score</li> </ul>                    |
| Lower than 580 | Poor   | <ul style="list-style-type: none"> <li>Well below the average of U.S. consumers</li> <li>Demonstrates to lenders that the consumer is a risky borrower</li> </ul> |

[FICO](#)'s research shows that people with a high FICO® Score tend to:

- Make all payments on time each month
- Keep credit card balances low
- Apply for new credit only when needed
- Establish a long [credit history](#)

### What are score factors?

Score factors are delivered with a consumer's [FICO® Score](#), these are the top areas that affected that consumer's FICO® Scores. The order in which the score factors are listed is important. The first factor indicates the area that most affected the score and the second factor is the next most significant influence. Addressing these factors can benefit the score.

### What are the minimum requirements to calculate a FICO® Score?

A [credit file](#) must contain these minimum requirements (*Note: The requirements vary slightly for [FICO® Scores NG](#)*):

- At least one account that has been open for six months or more
- At least one account that has been reported to the [consumer reporting agency](#) within the past six months
- No indication of deceased on the credit file (if you shared an account with a person reported as deceased, it is important to check your credit file to make sure you are not affected)

### How can FICO® Scores help me?

A [FICO® Score](#) gives lenders a fast, objective and consistent estimate of your [credit risk](#). Before the use of [credit scoring](#), the credit granting process could be slow, inconsistent and unfairly biased. Keep in mind that FICO® Scores are only one of many factors lenders consider when making a credit decision. Here's how FICO® Scores may benefit you.

**Get credit faster** - FICO® Scores can be delivered almost instantaneously, helping lenders speed up credit card and loan approvals.

**Unbiased credit decisions** - Factors such as your gender, race, religion, nationality and marital status are not considered by FICO® Scores. When a lender uses your FICO® Score, they're getting an evaluation of your [credit history](#) that is fair and objective.

**May save you money** - A higher FICO® Score can help you qualify for better rates from lenders—generally, the higher your score, the lower your interest rate and payments.

**More credit available** - Because FICO® Scores allow lenders to more accurately associate risk levels with individual borrowers, they allow lenders to offer different prices to different borrowers. Rather than making strictly "yes-no" credit decisions and offering "one-size-fits-all" credit products, lenders use FICO® Scores to approve consumers who might have been declined credit in the past. Lenders are even able to provide higher-risk borrowers with credit that they are more likely to be able to manage.

### Do I have more than one FICO® Score?

To keep up with consumer trends and the evolving needs of lenders, [FICO](#) periodically updates its [scoring model](#), resulting in new [FICO® Score](#) versions being released to market every few years. Additionally, different lenders use different versions of FICO® Scores when evaluating your credit. Auto lenders, for instance, often use FICO® Auto Scores, an [industry-specific FICO® Score](#) version that's been tailored to their needs.

### Why is my FICO® Score different than other scores I have seen?

There are many different [credit scores](#) available to consumers and lenders. [FICO® Scores](#) are the credit scores used by most lenders, and different lenders may use different versions of FICO® Scores. In addition, FICO® Scores are based on [credit file](#) data from a [consumer reporting agency](#), so differences in your credit files may create differences in your FICO® Scores.

### Why do FICO® Scores fluctuate/change?

There are many reasons why a 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 [consumer reporting agency](#) at that time. So, as the information in your credit file at that CRA changes, 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 a change in a FICO® Score. Keep in mind that certain events such as [delinquent](#) payments or bankruptcy can lower FICO® Scores quickly.

## New Credit

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

No. Most lenders use several 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.

### What is a typical FICO® Score for someone new to credit?

[FICO® Scores](#) are generated by complex mathematical algorithms based on unique [credit report](#) data, so there is no "typical" or "entry-level" score. While someone new to credit may have difficulty scoring in the highest score ranges due to a limited number of active accounts and length of history, it is possible to have a FICO® Score that meets lenders' criteria for granting credit. FICO® Scores consider the extent to which people can demonstrate a good track record of making payments on time. In fact, payment history is more important for FICO® Scores (about 35%) than length of [credit history](#) (about 15%).

### 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.

### What is a credit “inquiry”?

When you apply for credit, you authorize those lenders to ask or “inquire” for a copy of your [credit report](#) from a [consumer reporting agency](#). When you later check your credit report, you may notice that their credit inquiries are listed. You may also see inquiries by businesses that you don't know. But the only inquiries that count toward your [FICO® Scores](#) are the ones that result from your applications for new credit.

**Soft inquiry** - Soft inquiries are all credit inquiries where your credit is NOT being reviewed by a prospective lender. FICO® Scores do not consider involuntary (soft) inquiries made by businesses with which you did not apply for credit, inquiries from employers, inquiries from lenders for account review purposes for which you already have a [credit account](#), or your own requests to see your [credit file](#).

**Hard inquiry** - 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 hard inquiries within a reasonable shopping period for an auto, student loan or mortgage as a single inquiry.

### Will my FICO® Scores drop if I apply for new credit?

If so, they probably won't drop much. If you apply for a [credit account](#), a request for your [credit report](#) information (called a “hard [inquiry](#)”) will appear on your report. Looking for new credit can indicate higher [risk](#) to a lender, but multiple inquiries from auto, mortgage or student loan lenders within a short period of time are treated as a single inquiry rather than multiple inquiries and tend to have little effect on your [FICO® Scores](#).

### How can I minimize the effect to my FICO® Score when seeking new credit?

Applying for new credit only accounts for about 10% of a [FICO® Score](#), so the affect 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 effect 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 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 affect to your FICO® Scores. For example, if a person needed an extra \$5,000, getting one card with a \$5,000 has less effect on your score than getting two cards each with \$2,500 limits. 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 [riskier](#) 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 effect to your FICO® Score.

Given rate shopping for home, auto and student loans has no immediate effect, 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 affect to your scores as well.

## Credit Cards

### Should I take advantage of promotional credit card offers?

Generally, opening new accounts can indicate increased [credit 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 affect 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 effect on your [FICO® Scores](#).

FICO® Scores take into consideration something called a "credit [utilization](#) ratio". This ratio 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. Closing an old or unused card essentially wipes away some of your available credit and thereby increases your credit utilization ratio.

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

There are several things to consider when managing credit card debt. People who only have one credit card available and are coming close to maxing out that card, might consider applying for another card, since credit [utilization](#) affects their [FICO® Scores](#).

However, it is also important to keep in mind that 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.

## Student Loans

### What is the effect of paying student loans while in college versus after graduation?

Once you start paying your student loan, it will be part of your credit information considered by [FICO® Scores](#). Deferred loans do not harm FICO® Scores. The existence of the loan is a factor used to demonstrate the length of [credit history](#) and mix of credit.

Keep in mind that missing or late payments have a negative impact on FICO® Scores.

### How are FICO® Scores affected by the combination of interest and principal?

Most [installment loans](#) are a combination of interest and principal. The inputs into your [FICO® Scores](#) are based on data in your [credit report](#), which generally does not break out the interest and principal components, but instead reports the overall debt. Therefore the fact that loan payments are a combination of interest and principal does not have an impact on a score.

### Does moving loans into forbearance affect FICO® Scores?

Forbearance is a period of time during repayment in which a borrower is permitted to temporarily postpone making regular monthly payments. The debt is not forgiven, but regular payments are suspended until a later time. As an example, forbearance may be granted if a borrower is experiencing temporary financial difficulty. The consumer may be making reduced payments, interest-only payments or no payments. [FICO® Scores](#) do not consider the fact that a loan is in forbearance. Therefore, the fact that a loan moved into forbearance would not impact the score. However, even when a loan is in forbearance, other information about the loan may still continue to impact the score.

## Mortgages

### How long will a foreclosure affect a FICO® Score?

A foreclosure remains in your [credit files](#) for seven years, but its effect on 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.

### Are the alternatives to foreclosure 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 effect on a FICO® Score. While a foreclosure is a single account that you [default](#) on, declaring bankruptcy can affect multiple accounts and therefore has potential to have a greater negative affect on your FICO® Scores.

### 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.

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 effect on his or her FICO® Scores.

### How does refinancing affect my 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 effect 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 effect 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 affect the score more than if the terms of the existing loan are simply changed.

## Bankruptcy

### How will a bankruptcy affect my FICO® Scores?

A bankruptcy is considered a very negative event by [FICO® Scores](#), and will affect your FICO® Scores for as long as it is listed on your [credit files](#). However, as the bankruptcy item ages, its effect on a FICO® Score gradually decreases.

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.

## More about FICO® Scores & Financial Health

### Do employers use FICO® Scores in hiring decisions?

No. While Federal law allows review of [credit reports](#) for 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](#).

### 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 own credit habits and credit profile. However, if you and your spouse open a [credit account](#) under both your names, the spending and payment behavior on that account will impact both your FICO® Scores.

### How can I manage my credit and FICO® Score responsibly?

Higher [FICO® Scores](#) are a result of healthy credit behaviors, and the best way to have higher FICO® Scores is to demonstrate healthy credit behaviors over time. Here are a few tips you can follow.

**Pay your bills on time.** [Delinquent](#) payments and [collections](#) can have a major negative impact on your FICO® Scores. If you're behind on payments, get current and stay current.

**Avoid collections.** Paying off a collection account will not remove it from your [credit report](#). It will stay on your report for seven years.

**Keep balances low.** It's okay to use your credit cards, just be careful about using a large percentage of your available credit – high [utilization](#) rates can have a major impact on your FICO® Scores.

**Do your rate shopping within a short period of time.** FICO® Scores distinguish between a search for a single loan and a search for a mortgage, student or auto loan, in part by the length of time over which [inquiries](#) occur.

**Have credit and manage it responsibly.** Ultimately, having a mixture of credit is a good thing – as long as you make your payments regularly and on time. Someone with no credit cards tends to be higher [risk](#) than someone who has managed credit cards responsibly.

### What's the ideal utilization ratio?

There is no single [utilization](#) percentage that equates to optimal points. Generally, lower utilization means less [credit risk](#) and positive affect to [FICO® Scores](#).

### Will spending less and saving more affect a FICO® Score?

While putting more money towards savings is usually a good idea, it's not necessarily going to affect your [FICO® Scores](#). FICO® Scores do not consider the amount of cash you have, therefore the amount of money you save doesn't affect 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 a change in your FICO® Scores. FICO® Scores factor in the balance on [revolving credit accounts](#).

### Do accounts that are not on my credit reports affect my FICO® Scores?

Though your [FICO® Scores](#) capture a pretty accurate picture of your [credit history](#), not every account is recorded. Your positive rental and utility payment history may not be listed in your [credit reports](#), however not paying these bills on time can have a negative effect on your FICO® Scores:

- **Reported delinquencies:** Even though your good payment history isn't reported, your landlord and utility companies have the right to report [delinquencies](#) to the [consumer reporting agencies](#). If the bill continues to go unpaid your account could be turned over to a collection agency. A collection can show up in your credit reports and can be as harmful to your FICO® Scores as the more commonly reported delinquencies on loans or credit cards.

- **Future referrals:** The next time you need to move, your potential landlord is likely to require a copy of your credit report and a FICO® Score. They may also 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 late or incomplete payments, since people who consistently pay their bills on time appear less [risky](#).

### What are the factors of late payments, and how 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. This means that a recent [delinquencies](#) could be more damaging to a FICO® Score than several 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](#). While a 90-day late is worse than a 30-day late, the important thing to understand is that people who continually pay their bills on time tend to appear less risky to lenders.

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 before goes to a collections agency will have a positive effect on a 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](#): About 7 years, depending on the age of the debt being collected

*Keep in Mind:* The older the negative item is, the less affect it will have on your [FICO® Scores](#).

## Glossary of Credit Terms

### Charge-off

A declaration by a lender, generally for tax purposes, that an amount of debt is unlikely to be collected, which can happen when a person becomes severely [delinquent](#) in repaying a debt. The lender reports to the [consumer reporting agencies](#) that it has taken a loss, but the borrower is still responsible for paying back the debt. Also known as a "write-off."

### Collection

Attempted recovery of a past-due [credit obligation](#) by a lender's collection department or a separate collection agency.

### Consumer Reporting Agency (CRA)



An organization that assembles or evaluates consumer credit information, or other information on consumers for the purpose of preparing and furnishing consumer reports to third parties. The three largest CRAs, often also referred to as credit bureaus, in the U.S. are Equifax, Experian and TransUnion.

### Credit account

A specific lending arrangement between a creditor and borrower that provides the borrower with a loan or a [revolving instrument](#) such as a credit card, with an obligation to repay the creditor. Sometimes referred to as a [credit obligation](#).

### Credit file

The credit records at a [consumer reporting agency](#) regarding a given individual. The file may include: the person's name, address, Social Security Number, [credit history](#), [inquiries](#), [collection](#) records, and public record bankruptcy filings.

### Credit history

A record of a person's [credit accounts](#) and activities, including how the person has repaid [credit obligations](#) in the past.

### Credit limit

The amount of credit that a financial institution extends to a borrower. Credit limit also refers to the maximum amount a credit card company will allow someone to borrow on a single card. Credit limits are usually determined based on the applicant's [FICO® Score](#) and information contained in their credit application.

### Credit obligation

See [credit account](#).

### Credit report

A detailed report of an individual's [credit history](#) as stored in an individual's [credit file](#), prepared by a [consumer reporting agency](#) and used by a lender when making credit decisions. Most credit reports include: the person's name, address, credit history, [inquiries](#), [collection](#) records, and public record bankruptcy filings.

### Credit risk

The likelihood that individuals will not pay their [credit obligations](#) as agreed. Borrowers who are more likely to pay as agreed pose less risk to creditors and lenders.

### Credit score

See [What is a credit score?](#)

### Default

When a debtor (or borrower) is unable or unwilling to meet the legal obligation of debt repayment. Usually an account is considered in "default" after being [delinquent](#) for several consecutive 30-day billing cycles.

### Delinquent

A failure to deliver even the minimum payment on a loan or debt payment on or before the time agreed. Because most lenders have monthly payment cycles, they usually refer to such accounts as 30, 60, 90 or 120 days delinquent.

### Equal Credit Opportunity Act (ECOA)

Federal legislation that prohibits discrimination in credit. The ECOA originally was enacted in 1974 as Title VII of the Consumer Credit Protection Act.

### Fair Credit Reporting Act (FCRA)

Federal legislation that promotes the accuracy, confidentiality and proper use of information in the files at each "[consumer reporting agency](#)". The FCRA was enacted in 1970.

### FICO

See [What is FICO?](#)

### FICO® Industry Score

A type of [FICO® Score](#) offered by all three U.S. [consumer reporting agencies](#)—Equifax, Experian and TransUnion—that ranges from 250 to 900 and is used by some lenders to address specific types of lending products, such as auto loans or credit cards.

### FICO® Scores

See [What are FICO® Scores?](#)

### FICO® Score NG

A type of [FICO® Score](#) offered by all three U.S. [consumer reporting agencies](#)—Equifax, Experian and TransUnion—that ranges from 150 to 950 and is used by some lenders.

### Inquiry

See [What is a credit "inquiry"?](#)

### Installment debt

Debt to be paid back at regular intervals over a specified period. Examples of installment debt include most mortgages and auto loans. Sometimes referred to as an "installment account" or an "installment loan."

### Permissible purpose

The [Fair Credit Reporting Act \(FCRA\)](#) prohibits a [consumer reporting agency](#) from furnishing an individual's consumer report unless there is a permissible purpose. Permissible purposes include: credit or insurance transactions, employment purposes, and account review. The consumer reporting agency may also furnish a consumer report if a consumer gives his or her consent.

### Revolving credit/debt

A line of credit that the borrower can repeatedly use and pay back without having to reapply every time credit is used. Bank credit cards are the most common type of revolving [credit account](#). Other types include department store cards and travel charge cards.

### Score factors

See [What are score factors?](#)

### Scoring model

A mathematical formula or statistical algorithm used to predict certain behaviors of prospective borrowers or existing customers relative to other people. A scoring model calculates scores based on data such as information on a consumer's [credit report](#) that has proven to be predictive of specific consumer behaviors.

### Utilization

The proportion of the balance owed on [revolving accounts](#) divided by the available [credit limit](#)(s). Utilization is an input used in determining a person's [credit score](#). Typically, it is the amount of outstanding balances on all credit cards divided by the sum of their credit limits, and it's expressed as a percentage.