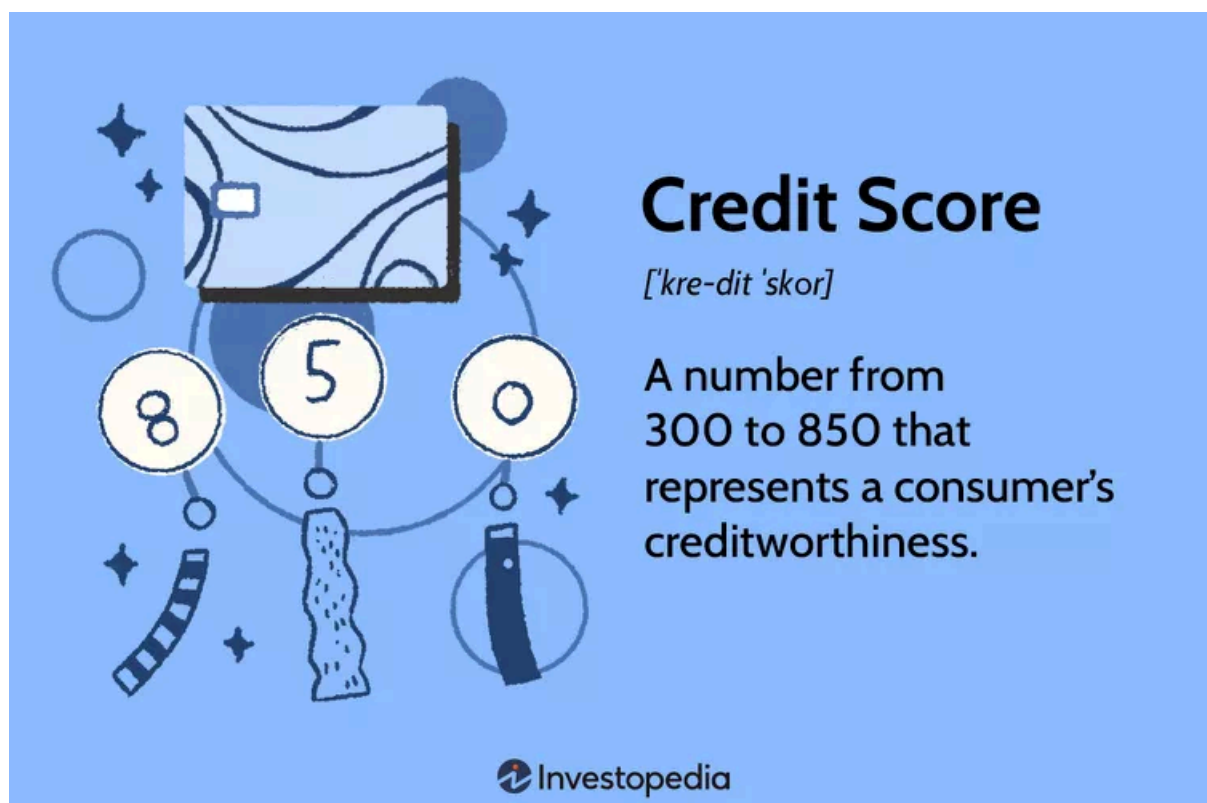


CREDIT & DEBT BUILDING CREDIT

What Is a Credit Score? Definition, Factors, and Ways to Raise It

By THE INVESTOPEDIA TEAM Updated February 28, 2024Reviewed by ERIKA RASUREFact checked by MARCUS REEVES

Part of the Series
Debt Management Guide



Investopedia / Joules Garcia

What Is a Credit Score?

A credit score is a three-digit number that rates your [creditworthiness](#). FICO scores range from 300 to 850. The higher the score, the more likely you are to get approved for loans and for better rates. ^[1]

Lenders use credit scores to evaluate your credit worthiness, or the likelihood that you will repay loans in a timely manner.

There are three major credit bureaus in the U.S.: Equifax, Experian, and TransUnion. This trio dominates the market for collecting, analyzing, and disbursing information about consumers in the credit markets.

KEY TAKEAWAYS

- A credit score is a number that depicts a consumer's creditworthiness. FICO scores range from 300 to 850.
- Factors used to calculate your credit score include repayment history, types of loans, length of credit history, debt utilization, and whether you've applied for new accounts.
- A credit score plays a key role in a lender's decision to offer credit and for what terms.
- The three main U.S. credit bureaus (Equifax, Experian, and TransUnion) may each calculate your FICO score differently.

The credit score model was created by the Fair Isaac Corp., now known as [FICO](#), and is used by financial institutions. While [other credit scoring systems](#) exist, the [FICO Score](#) is by far the most commonly used. ^[2]

There are a number of factors that go into calculating your FICO credit score, including your repayment history, your debt utilization, the length of your credit history, your credit mix, and any new account openings. ^[3]

Lenders use your credit score to determine whether to approve you for [products like mortgages](#), personal loans, and credit cards, and what interest rates you will pay.

Note

it to decide whether you are required to make a deposit.

How Credit Scores Work

A credit score can significantly affect your financial life. It plays a key role in a lender's decision to offer you credit. Lenders are more likely to approve you for loans when you have a higher credit score, and are more likely to decline your loan applications when you have lower scores. You can also get better interest rates when you have a higher credit score, which can save you money in the long-term.

Conversely, a credit score of 700 or higher is generally viewed positively by lenders, and may result in a lower interest rate. Scores greater than 800 are considered excellent. Every creditor defines its own ranges for credit scores and its own criteria for lending. Here are the general ranges for how credit scores are categorized. ^[4]

- Excellent: 800–850
- Very Good: 740–799
- Good: 670–739
- Fair: 580–669
- Poor: 300–579

Note

Your credit score also may determine the size of deposit required to get a smartphone, cable service, or utilities, or to rent an

What Is A Credit Score?

Tip: Order your copy of Investopedia's [What To Do With \\$10,000 magazine](#) for more tips about managing debt and building credit.

How Your Credit Score Is Calculated

The three major credit reporting agencies in the U.S. ([Equifax](#), [Experian](#), and TransUnion) report, update, and store consumers' credit histories. While there can be differences in the information collected by the three credit bureaus, five main factors are evaluated when calculating a credit score: ^[3]

1. Payment history (35%)
 2. Amounts owed (30%)
 3. Length of credit history (15%)
 4. Types of credit (10%)
 5. New credit (10%)
- **Payment history:** Your payment history includes whether you've paid your bills on time. It takes into account how many late payments you've had, and how late they were.

- **Length of credit history:** Longer credit histories are considered less risky, as there is more data to determine payment history.
- **Credit mix:** A variety of credit types shows lenders you can manage various types of credit. It can include installment credit, such as car loans or mortgage loans, and revolving credit, such as credit cards.
- **New credit:** Lenders view new credit as a potential sign you may be desperate for credit. Too many recent applications for credit can negatively affect your credit score.



Factors That Impact Your Credit Score

Ellen Lindner / Investopedia

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If you have many credit cards and want to close some that you do not use, closing credit cards can indeed lower your score.

Instead of closing accounts, gather up the cards you don't use. Keep them in a safe place in separate, labeled envelopes. Go online to access and check each of your cards. For each, ensure that there is no balance and that your address, email address, and other contact info are correct. Also, make sure that you don't have autopay set up on any of them. In the section where you can have alerts, make sure you have your email address or phone in there. Make it a point to regularly check that no fraudulent activity occurs on them, since you aren't going to be using them. Set yourself a reminder to check them all every six months or every year to make sure there have been no charges on them and that nothing unusual has happened.

VantageScore

VantageScore is a consumer [credit rating](#) product developed by the Equifax, Experian, and TransUnion credit bureaus as an alternative to the FICO Score. ^[5]

scores, not one, and they can vary slightly as each bureau will have different calculation methods. A VantageScore is a single, tri-bureau score, combining information from all three credit bureaus and used by each of them the same. ^[5]

Note

FICO score is the [most popular credit score](#), used by about 90% of lenders. ^[6]

How to Improve Your Credit Score

When information is updated on a borrower's credit report, their credit score changes and can rise or fall based on new information. Here are some ways that you can [improve your credit score](#):

- **Pay your bills on time:** Six months of on-time payments are required to see a noticeable difference in your score.
- **Increase your credit line:** If you have credit card accounts, call and inquire about a credit increase. If your account is in good standing, you should be granted an increase in your credit limit. However, it is important not to spend this amount so that you maintain a lower credit utilization rate. Meanwhile, try to pay down your debt.
- **Don't close a credit card account:** If you are not using a certain credit card, it is best to stop using it instead of closing the account. [Depending on the age](#) and credit limit of a card, it can hurt your credit score if you close the account.
- **Work with one a credit repair companies:** If you don't have the time to improve your credit score, [credit repair companies](#) can negotiate with your creditors and the three credit agencies on your behalf, in exchange for a monthly fee.
- **Correct any errors on your credit report:** You are entitled to one free credit report per year from each of the main credit bureaus. You can get your report through [AnnualCreditReport.com](#). You can also hire a [monitoring service](#) to help keep your information secure.

Ranges vary depending on the credit scoring model. Generally, credit scores from 580 to 669 are considered fair; 670 to 739 are considered good; 740 to 799 are considered very good; and 800 and higher are considered excellent. ^[4]

Who Calculates Credit Scores?

There are three major credit bureaus in the United States: Equifax, Experian, and TransUnion. They each calculate your FICO score in different ways using the same information. Credit bureaus collect, analyze, and disburse information about consumers in the credit markets.

How Can I Raise My Credit Score Quickly?

To raise your credit score quickly, you can enroll in a service that includes other payment information such as your rent payments and utilities payments that are not typically included in your credit score. If you have had a good track record with these kinds of bills, enrolling in a service like Experian Boost could raise your credit score quickly. ^[7]

The Bottom Line

Your credit score is a number that can have a significant impact on your financial life. If you have a good credit score, you are more likely to qualify for loans and to receive better terms that can save you money. Learning what your credit score is and what goes into calculating your credit score can help you take steps to improve it.

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VantageScore: Meaning, Model, Components

VantageScore is a consumer credit rating product similar to the FICO score. It is used by many creditors to assess the risk of lending money to a potential borrower. [more](#)

Beacon Credit Score: Definition, vs. FICO Score & Pinnacle Score

A Beacon score is an early FICO credit scoring model that is still in use today but now known simply as a FICO score. [more](#)

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A credit report is a detailed breakdown of an individual's credit history, compiled by one of the three major credit bureaus. [more](#)

What Is a FICO Score?

A FICO score is a credit score that many lenders use to assess an applicant's credit risk. Learn how a FICO score works and how you can raise your credit score. [more](#)

important factor in your credit score. [more](#)

Bad Credit: Definition, Examples, and How to Improve


Bad credit refers to an individual's history of not paying bills on time and the likelihood that they will fail to make timely payments in the future. [more](#)

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