

himeright background check uk time

What is a Good Credit Score?

=====

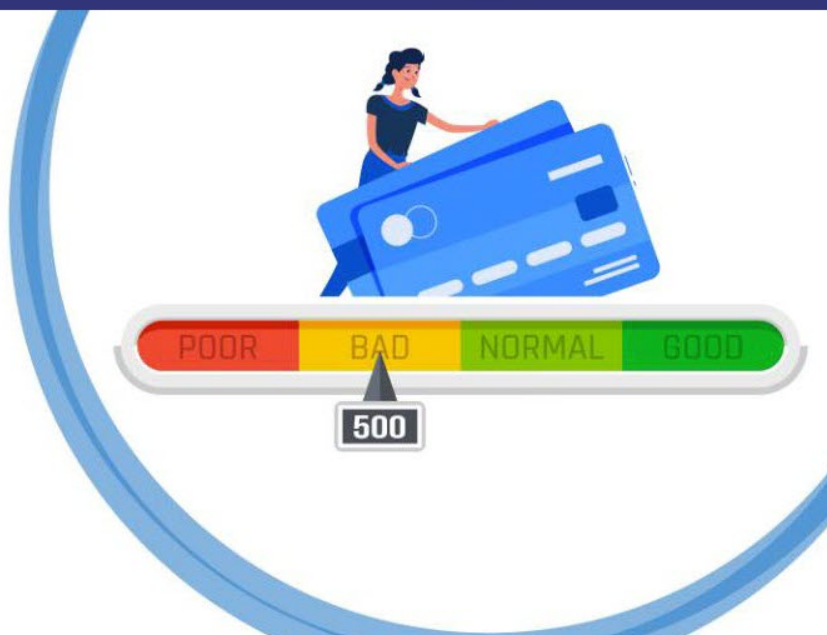
CONSUMER
ATTORNEYS

FREE CASE CONSULTATION
800 604 0466



HOW TO RECTIFY A MISTAKE ON YOUR CREDIT REPORT

Free Case Review



=====

Have you been checking out banks loan offers online? Then you might have wondered how loans get approved without your monthly income getting checked? Have you ever wondered how your loan gets cleared so quickly, while your neighbor is struggling for the same one? How come both of you end up with different interest rates though you apply for the same amount of loan, with the same bank? The answer lies in your credit scoring.

Credit scoring plays a vital role in determining your financial status. To get a better understanding of good credit score benefits, let me explain how credit score is calculated, the factors which come into play in determining credit score and its effects on your financial credibility. Credit Score In general terms, credit score is a number generated by a mathematical formula or algorithm. This mathematical formula works on the information provided in your credit report to compare the same information with another individual, using some standard comparison scales, to ultimately derive the credit score. This resulting number is a precise reflection of your financial credibility. It accurately predicts how likely it is, that you will make the repayments and how risky would it be for the bank to provide you with a loan. With its scale running from 300 to 850, these credit scores are extensively used as a formula by many lenders to determine if you are creditworthy or not. It may be referred by banks, for a mortgage, a car loan or a credit card and if you have applied for any of these previously, then the rates you have received are often the reflection of your credit scoring. To put it simply, people with higher credit scores get lower interest rates, compared to the rates offered to individuals with low credit score.

Credit Scoring Systems Lenders and the firms offering loans use diverse credit scoring patterns to determine your credibility. As credit scoring systems used by three US credit bureaus (Equifax, TransUnion and Experian) vary slightly in their formula, giving different weights to different parameters, they result in production of different credit scores from the same credit information of a person. Therefore, every US citizen has three different credit scores, generated by three different bureaus. To bring certain kind of standardization in this process, Fair Isaac Corporation (FICO), a California based company developed the first credit scoring system, using certain standard scales for different parameters. This FICO scoring system has been accepted by all credit scoring institutions, as a base platform.

The three major credit bureaus use their own version of FICO scoring model. These three companies are Equifax, Experian, and TransUnion. Equifax uses BEACON scoring model while Experian uses Fair Isaac Risk Scoring Model and TransUnion has the Empirica Scoring Model. As all these three versions of scoring models are different from each other, they come up with different credit scores. Studies have revealed the American public credit score distribution. About 13% of American public has a credit score of 800 and above. Nearly 45% people, have credit scores in the range between 700 and 800, while approximately 27% people contribute to the credit score ranging from 600 to 700. Good Credit Score Generally, any FICO score above 700, is a good credit score. Of course, there is no standardization in black and white narrating what the good score is; it is believed that the average borrower has a credit score in the range of 600 to 700. A new scoring model known as VantageScore is slowly catching up as a unique scoring method for everyone, as all three – Equifax, Experian and TransUnion collaborated on its development. Its scoring ranges from 501 to 990 and has letter grades from "A to F". So a score from 501 to 600 will correspond to "F" grade while a score of 901 to 990 will receive "A" grade. So in Vantage scoring system, credit scoring grade of 'C' is considered as a good credit score. As per FICO scoring model more than 20 factors in five different categories are taken into consideration to compute your credit score. • Payment History – One of the most important factors is your recent payment history. It accounts for 35% of your total score. It is based on payment information on all types of accounts like credit cards, retail accounts and details on late or missed payments. It also considers public records like judgments, suits or bankruptcies and collection items. • Amount You Owe and Available Credit – This is the second most important factor – your outstanding debt. This accounts for 30% of your total score. It considers the information regarding the amount owed on all accounts, information related to the accounts showing balances, how much total credit line is used, etc. Here one thing which must be remembered is that carrying of debt does not necessarily mean that you have low credit score. In fact, people with higher scores use their credit sparingly and keep their balances low. • Length of Credit History – The longer you have had credit, the greater will be your score. This accounts for 15% of your total credit score. • New Credit – The opening of several credit accounts in a short period of time hampers the credit scoring of an individual. This accounts for 10% of the total credit score. • Types of Credits in Use – This accounts for 10% of your score and considers the range of credit types, you have availed and the total number of accounts you have. **Factors Affecting Credit Score** Although credit scores vary with different scoring methods, it provides a standard platform to gauge your creditworthiness. Even if it is not clear which number can be considered to be a good credit score for a specific purpose, it is always advisable to keep your score higher than 700. It can be explained in a much better way by this example. A person carrying a score of 625 can be scrutinized for mortgage lending but at the same time, the same score can be good enough for getting a car loan. So brace yourself to achieve that 700-720 mark and most credit lines will open up for you!