How is a Credit Score Calculated?

Each credit bureau (Equifax, Experian, TransUnion) has a different calculation for computing your credit score. In general, here are the factors typically considered:

- Your payment history
- Your used credit versus your available credit
- The types of accounts you have
- The length of your credit history
- The number of accounts you have
- The number of inquiries about your account

Payment history. When a lender or creditor looks at your credit report, a key question is, "If I extend this person credit, will s/he pay it back on time?" Lenders consider your payment history, meaning how you have repaid your credit in the past.

For a young person, a payment history may include credit cards, retail department store accounts, installment loans, auto loans, student loans, and finance company accounts (you may not realize it, but you get a finance company account if you buy something, like a new TV, and the store lets you pay it off in monthly installments).

Payment history will also include details on late or missed payments, how late your payments were, how much was owed, and how recently and how often you missed a payment. The information will also detail how many of your credit accounts have been delinquent in relation to all your accounts on file. So, if you have two credit accounts, and you have had a late payment on one of the accounts, you're at a 50% late ratio.

Used credit versus available credit. Another factor lenders and creditors look at is how much of your available credit, known as your credit limit, you are using. If your credit limit is $500 on three credit cards and you owe $450 to each, you're nearly out of credit on all of them. That's not good. Lenders and creditors like to see that you are responsibly able to use credit. If you have a mix of credit accounts that are "maxed out" or at their limit, that may negatively impact your

How Are Credit Scores Calculated? | Equifax®, www.equifax.com/personal/education/credit/score/how-is-credit-score-calculated/.
"What Is a Good Credit Score?" *Experian*, 15 May 2019, www.experian.com/blogs/ask-experian/credit-education/score-basics/what-is-a-good-credit-score/.

credit score.

Type of credit used. Credit score calculations may also consider the different types of credit accounts you have, including revolving debt (such as credit cards) and installment loans (such as auto and student). Another factor is how many of each type of account you have. Lenders and creditors like to see that you're able to manage multiple accounts of different types.

New credit. Credit score calculations may also consider how many new credit accounts you have opened recently. If you open too many new accounts to increase your credit limit, that might not look good.

Length of credit history. This section of your credit history details how long different credit accounts have been active. Generally speaking, creditors like to see that you have a long and consistent history of paying off your credit accounts. So, don't cancel an old credit card when you get a new one; just stop using the old one.

Hard inquiries. Let's say you see a new phone you like, and you want to pay for it over the next 24 months. The phone company will check your credit report to see if you are able to make the payments. That's a "hard inquiry." Checking your own credit report does NOT affect your credit score. These are known as "soft inquiries."

Credit scores range from 300-850. It's better to have a higher number than a lower number. Here is a breakdown:

How Are Credit Scores Calculated? | Equifax®, www.equifax.com/personal/education/credit/score/how-is-credit-score-calculated/.
"What Is a Good Credit Score?" *Experian*, 15 May 2019, www.experian.com/blogs/ask-experian/credit-education/score-basics/what-is-a-good-credit-score/.