

Motley Fool's *Rule Your Retirement* Newsletter

Fascinating Facts About Credit Scores

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Credit scores are an important part of life for most U.S. adults. If you want to buy a house, finance a car, get a credit card, or rent an apartment, good credit makes it easier to do so. However, there are many things about credit scores that are not well understood, and here are 10 you may not be aware of.

1. Some credit scores are more useful than others.

Not all credit scores are the same. When it comes to credit scoring, there's the FICO score and everyone else. The FICO score is used in more than 90% of lending decisions, so this is the one you need to look at if you want to see yourself through lenders' eyes. Many 'free credit score' websites use different scoring models such as the Vantage Score, the second most common. These can certainly be useful in identifying credit problems and getting a general sense of how you're doing, but for the best picture of your credit health, make sure you're looking at a FICO score.

2. Millions of people have no credit score at all.

You may not even have a credit score if you don't use your credit. Millions of people don't. In order to have a FICO score, you need to meet these requirements:

- At least one account opened for six months or more.
- At least one account that had been reported to the credit bureaus within the past six months.
- No indication of deceased on the credit report. (This shouldn't affect you, but mistakes do happen on credit files.)

3. You have several important FICO scores, not just one.

You have a FICO score from each of the three major credit bureaus: Experian, Equifax, and TransUnion. Your scores tend to vary slightly between them. In fact, as of this writing, there is a 22-point difference between my highest and lowest FICO score. Lenders may look at just one, or all three, so it may be worth paying for an all-in-one credit monitoring service that allows you to see them all. For example, mortgage lenders generally look at all three scores and use the middle number.

4. Having no credit card balances can hurt your credit score.

Here's one that may seem counterintuitive. Generally, the lower your credit utilization, the better your score will be. However, that's only true to a point -- a small credit card balance may be better than none at all. When I [interviewed](#) perfect FICO score achiever David Howe a few years ago, he said that part of his magic formula was a small credit card balance. In fact, he even showed me a screenshot of his score dropping from 849 (one point away from perfect) to 824 after paying off a small credit card balance.

5. What is a "good" credit score?

The cutoff point for "good" credit depends on what you're trying to buy, and who you ask. In other words, there's no clearly defined number. However, there are some [general guidelines](#).

FICO Score Range	Status
300 to 619	Bad credit
620 to 689	Average credit
690 to 719	Good credit
720 to 850	Excellent credit

DATA SOURCE: WWW.MYFICO.COM

6. A "great" credit score can save you thousands of dollars.

Most people know that the better your score is, the more loans and credit cards you can qualify for and the lower your interest rate will be. However, many people don't realize the tremendous difference this can make over the long run. For example, consider how much interest you would pay over the life of a 30-year \$250,000 mortgage, based on the current average interest rates.

FICO Score Range	Average APR	Total Interest Paid	Additional Interest vs. Highest Tier
760 to 850	3.975%	\$178,378	----
700 to 759	4.197%	\$189,958	\$11,580
680 to 699	4.374%	\$199,304	\$20,926
660 to 679	4.588%	\$210,735	\$32,357
640 to 659	5.018%	\$234,130	\$55,752
620 to 639	5.564%	\$264,630	\$86,252

DATA SOURCE: WWW.MYFICO.COM. RATES CURRENT AS OF DEC. 27, 2016.

7. Bad credit doesn't last forever.

If your credit is terrible right now, that doesn't mean it always will be. Most negative information will drop off your credit report completely after seven years, and will have a smaller impact before that as time goes on. For instance, a late payment from last year can have a bigger negative effect on your credit score than a late payment from five years ago. There are a few notable exceptions, such as most bankruptcies (which stay on for 10 years) and unpaid tax liens (which stick around for 15 years).

8. These factors are *not* included in your credit score.

I've written about the information that makes up your FICO score several times ([here's a good discussion](#) if you're interested). However, it's also important to know what is not included in your score. Specifically, FICO scores don't consider:

- Your race, religion, color, sex, or marital status
- Your age
- Your salary, profession, title, or employment history
- Where you live
- The interest rates you pay on your debts
- Child support obligations
- Any information not found on your credit report
- Participation in credit or financial counseling

9. Checking your credit won't hurt you -- and it may be free.

It's true that when your credit is checked, it can hurt your score. However, this only matters for 'hard' inquiries, which generally only take place when you apply for new credit. 'Soft' inquiries, such as when a credit card company wants to pre-screen you for a credit offer, or when you check your own credit, have no effect whatsoever. You're entitled to a free credit report each year at www.annualcreditreport.com, and if you subscribe to a credit-monitoring service, you can check your credit much more often than that without worry of a negative impact on your score.

10. Credit scores can help you get a job, an apartment, and save money on car insurance.

Obviously, a good credit score can help you buy a home and car, and can give you the ability to borrow money. In addition to these things, there are a few other reasons good credit is important. For example, nearly half of employers (47%) check potential employees' credit reports (but not scores) as part of the hiring process. The same can be said about landlords and insurance companies.

Why? Simply put, your credit history is viewed as a good picture of your trustworthiness and responsibility. Employers want to know that you follow through with your obligations and landlords want to know that your rent checks will arrive every month on time. The bottom line is that good credit can make your life much easier, and not just in terms of your ability to borrow money.