Credit Scores:

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What is a credit score?

Credit scores are tools used to predict an outcome, most commonly repayment of a debt. Credit scores look at an individual's credit history and calculate the relative risk that the individual will not fulfill the terms of an agreement based on their past performance.

The scores are based on the information in an individual's credit report at a point in time but are not a part of the credit report itself.

It is important to remember that a credit score is only one tool used by lenders and other companies in their decision making process.

A world of different scores

Lenders, insurance companies, utility and telco providers check scores and use them as guidelines. Depending on the situation, they all use different scoring systems, also known as scoring models.

Each model plugs the data from an individuals credit file into its proprietary algorithm and generates a score. The algorithms compare a huge number of data points to be able to classify each file based on the future risk level it presents. Many of the models refine their algorithms over time to reflect trends that emerge in the marketplace and in order to better predict risk.

Scoring models all attempt to predict a risk level as it pertains to the product or service being offered.

While all credit scores look at the same information, they weigh the information differently depending on the specific purpose of the scoring model. For example, scores used for auto loans might give more weight to how previous auto loans were repaid, while scores used for credit card lending may give more importance to past credit card payments.

All of these different models look at different aspects of ones credit history and generate a score based on the information. Almost all of the models have different score ranges. Some use a lower number to mean a better score and some a higher number, some start at 0 and some go past 1000. Sometimes companies even use different names for the same scoring model.

Since so many models are in use an individual can have a lot of different credit scores.

One well-known model is the FICO score developed by the Fair Isaac Corporation. It is typically used by mortgage lenders to rate applicants credit worthiness and ranges from 300 to 850. Another model, the Experian VantageScore, is also used by many lenders but ranges from 500 to 990, with a higher score being better.