FICO Credit Scores Explained

FICO is the most recognizable name in credit scores. The Fair Isaac Corporation (now called FICO), which developed the FICO credit scoring model, says its scores are used by 90% of top U.S. lenders in 90% of lending decisions.

FICO has created the algorithm -of the same name- that most lenders in the United States use to find your credit score when you apply for a loan. The company releases an updated version of the algorithm to lenders every few years. Since lenders are not required to use the latest version of FICO, it's important to understand how the algorithms differ as your score will be altered. In this guide, we'll give you an in-depth look at the most commonly used versions of the FICO scoring model.

There are currently several types of FICO scores available. The most widely used model is FICO 8, though the company has also created FICO 9 and FICO 10 Suite, which consists of FICO 10 and FICO 10T. There are also older versions of the score that are still used in specific lending scenarios, such as for mortgages and car loans.

KEY TAKEAWAYS

- FICO scores are the most widely used credit scores in the U.S. for consumer lending decisions.
- There are multiple FICO credit scoring models, each of which uses slightly different criteria.
- FICO scores are based on the information collected on individual consumers by the three major credit bureaus, including their payment history, credit utilization, and the age of their accounts.

How FICO Scores Work

FICO scores were introduced in 1989. The company uses information found in individual consumers' credit reports to calculate credit scores for them. These scores are then used by lenders to gauge each consumer's creditworthiness and determine whether to approve their applications for loans, credit cards, and other borrowing.

FICO scores range from 300 to 850, with 850 considered a perfect score. The higher your score, the better your odds of being approved for loans and lines of credit at the most favorable interest rates and terms.

FICO scores are based on these five factors:

- **Payment history (35%)**
  Whether you've paid past credit accounts on time
- **Amounts owed (30%)**
  The amount of credit and loans you are using
- **Length of credit history (15%)**
  How long you've had credit
- **New Credit (10%)**
  Frequency of credit inquiries and new account openings
- **Credit Mix (10%)**
  The mix of your credit, retail accounts, installment loans, finance company accounts and mortgage loans

Model Description

- FICO 2 - Used by mortgage lenders. Built on data from Experian.
- FICO 3 – Lenders rely on the middle score as the decision score.
- FICO 4 - Used by mortgage lenders. Built on data from TransUnion.
- FICO 5 – Used by mortgage lenders. Built on data from Equifax.
- FICO 8 – Most common. Used for Auto and Bankcard lending.
- FICO 9 – Most widely used.
- FICO 10 and 10T – Newest versions. Not widely used (yet).

Each scoring model may be used in different lending situations. FICO scores 2, 4, and 5, for example, are used by both mortgage and auto lenders to determine borrowers' creditworthiness. Currently, the most common FICO score is FICO 8.
Each of the three major credit bureaus—Equifax, Experian, and TransUnion—generates consumer credit reports, which then are used to calculate FICO credit scores. You might have different scores for each bureau, based on the information that's been reported to them by your creditors.

What Is a Good Credit Score?

FICO classifies its scores as exceptional, very good, good, fair, and poor. The table shows which number ranges are associated with which rating.

FICO Score Ratings

Exceptional	800 to 850
Very Good	740 to 799
Good	670 to 739
Fair	580 to 669
Very Poor	300 to 579

What Is FICO 8?

FICO 8 is still the most widely used credit score today. If you apply for a credit card or personal loan, odds are that the lender will check your FICO 8 score.

FICO 8 is unique in its treatment of factors such as credit utilization, late payments, and small-balance collection accounts. Here are some key things to note about FICO 8:

- This scoring model is more sensitive to higher credit utilization (meaning the percentage of your available credit that you're using at any given time).
- Isolated late payments on your credit report may not count against you as much as having multiple late payments.
- Small-balance collection accounts, in which the original balance was less than $100, are ignored for scoring purposes.

It's also worth pointing out that there are different versions of FICO 8. This version also can be used in auto lending, as well as for personal loan and credit card decisions. With FICO Bankcard Score 8, which is used when you apply for a credit card, the focus is on how you've handled credit cards in the past. FICO Auto Score 8, on the other hand, doesn't emphasize credit card activity and history as heavily.

One of the most important aspects about FICO 8 is that it's more sensitive to high utilization of credit lines when compared to previous versions of FICO. We recommend that you stay under 30% of your '**total**' credit utilization to keep your FICO 8 score from dropping due to high utilization.

On the other hand, FICO 8 has positive changes for consumers as well. Accounts in collections with balances under $100 are now ignored by your FICO score. Previously, all collections accounts were factored into your FICO score, no matter how small they were. Additionally, FICO 8 is more forgiving to one-off late payments of 30 days or more when compared to previous versions of the FICO model, as long as all other accounts are in good standing.

What Is FICO 9?

FICO 9 was introduced in 2016 and is available to both lenders and consumers. While not as widely used as FICO 8, this scoring model has some features that could help certain consumers improve their credit scores.

FICO 9 is similar to FICO 8 but differs when it comes to collections and rent payments. FICO 9 counts medical collections less harshly than other accounts in collections, so a surgery bill in collections will have less of an impacts on your credit score than a credit card bill in collections.

Additionally, FICO 9 ignores accounts in collections that have a zero-dollar balance. If you had a credit card account go to collections but later paid if off, FICO 9 will no longer use said collections account against your score. This is different than FICO 8, which factors all collections amounts of $100 or more into your FICO score – even if they're completely paid off.

Here are the most noteworthy aspects of FICO 9:

- Third-party collection accounts that have been paid in full are ignored and no longer have a negative impact for credit scoring.
- Unpaid medical collection accounts have less of a negative impact compared with other types of unpaid collection accounts.
- Rental history can now be factored into FICO 9 credit scores, which may help people with limited credit history.

**Note: Just because collections with a zero balance are ignored by FICO 9 does not mean that lenders will ignore them. Credit bureaus will still show these collections on your full credit report, and lenders will see them when they review your full credit history.*

FICO 9 credit scores are available to consumers for free through lenders that participate in the FICO Score Open Access program. Your credit card company, for example, may offer free FICO 9 credit scores as one of its customer benefits.

Finally, FICO 9 factors rental history into your credit score. This makes it easier for people with no credit to build a high credit score with the monthly on-time rent payments. Unfortunately, rent payments are factored into FICO 9 automatically, this is dependent on your landlord actually reporting your payment history to one or all three of the major credit bureaus for your rent payments to be included.

What Is FICO 10 and FICO 10T?

FICO 10 and FICO 10T are new credit scoring models announced in 2020. FICO says the FICO Credit Score 10 Suite is designed to be its most predictive scoring model yet, giving lenders a more precise picture of someone's credit risk. FICO 10 and FICO 10T still follow the same basic FICO algorithm that focuses on payment history, credit utilization, credit age, credit mix, and credit inquiries. What makes FICO 10T different is the use of trended data.

Trended data looks at a person's credit patterns for the previous 24 months or longer. It takes into account things such as whether you carry a balance on your credit cards from month to month or always pay in full, and whether you've consolidated debts at any point during that time period.

The company expects FICO 10 and FICO 10T to eventually overtake FICO 8 as the most popular scoring models.

FICO Credit Scores vs. Other Credit Scores

While FICO scores dominate the credit scoring business, they're not the only product out there. The three major credit bureaus launched a competitor, VantageScore, in 2006. Its scores originally ranged from 501 to 900, but VantageScore 3 adopted the same 300-to-850 point scale as the FICO score. Like the FICO score, it is calculated using information from your credit reports, and takes credit utilization, credit inquiries, and on-time payments into account, but it weights the various factors differently.

How Does FICO Differ from Other Credit Score Models?

The two models differ in a few ways, with one major difference. FICO penalizes all late payments the same way, while VantageScore penalizes late mortgage payments higher than other late payments.

FICO and VantageScore also differ in how they handle combining similar credit inquiries. With FICO, you have a 45-day grace period where similar credit inquiries for auto loans, mortgages, and student loans are combined into one inquiry. VantageScore gives you a smaller 14-day grace period, which can make comparison shopping for loans harder and stricter.

As with FICO scores, there are several different VantageScores, the most recent being VantageScore 4.0.

Some credit card issuers, such as American Express, and other companies that offer free credit scores to their customers provide VantageScores rather than FICO scores.

How Can You Learn Your Credit Score?

You can purchase your credit score or obtain it for free from many banks and credit card companies. There are also websites where you can obtain free scores. Bear in mind that you probably have multiple credit scores, and the ones that you can get for free may not be identical to all the others.

How Can You Obtain Your Credit Reports?

You are entitled to see your credit reports from all three of the major credit bureaus at least once a year at the official website, AnnualCreditReport.com.

Do Credit Reports Show Your Credit Score?

No. While your credit scores are based on the information in your credit reports, they are not included in them.

The Bottom Line

FICO scores are the most widely used credit scores today, and there are multiple versions of them. Regardless of which FICO scoring model is involved, the same rules apply for maintaining a good score. These include paying bills on time, keeping your credit utilization ratio low, and applying for new credit sparingly.

Check out: Reason Why Your Credit Score Drops?