Hi everyone, Jerry Manor here. Last week on SeaComm Money Matters we discussed credit reports and the information that they contain. This week let's talk credit scores

The main types of credit scores are FICO, VantageScore, and insurance scores. Credit scores are based on your credit history and are used to determine your creditworthiness. The FICO score was the first consumer credit score developed by the Fair Isaac Corporation (FICO) in 1989. According to myFICO.com, 90 percent of top lenders use FICO scores to determine loan approvals, interest rates and credit limits. Credit scores use a formula that takes into account various factors. The FICO score uses five main components, including payment history, which is 35% of the score, amounts owed 30%, length of credit history 15%, recent credit inquiries 10% and types of credit used or credit mix, 10%. For some people, the importance of these categories can be different. For example, scores for people who have not been using credit long will be calculated differently than those with a longer credit history. FICO has more than 50 different versions of your score that it sends to lenders. The score may change, depending on which company asks and what was important to that company in calculating your score. That means your FICO score for a department store might be slightly better (or worse) than your FICO score for a financial institution considering you for an auto loan. And that will be slightly different from your FICO score for insurance, which could vary from your score for a mortgage loan. The "classic" FICO scoring model gives consumers a number between 300 and 850. A score under 600 is considered poor. A score above 740 is considered excellent. In between is considered average to above average.

According to debt.org, the latest scoring model is FICO 10, which debuted in 2021. But the most significant changes came with FICO 9, introduced in 2014. The three most significant changes in FICO 9 were: less weight on unpaid medical bills, no penalty for a collections process as long as you have repaid the amount in collection, and inclusion of rental history as part of your overall credit history.

Why the changes? Unpaid medical debt was not necessarily an indicator of financial health. An individual could be waiting on insurance payments before paying the debt or they might not even know that a bill was sent to collections. In some cases, this factor could cause the credit score to rise by as much as 25 points. Similarly, as home ownership became more difficult to attain, a person’s responsible paying of rent was counted as a plus.

More changes were added in 2017 when Equifax, Experian and TransUnion removed all civil judgment data and many tax lien records from credit files.

Your FICO Scores consider both positive and negative information in your credit report. Your score is unique to you. In addition, as the information in your credit report changes, so does the evaluation of these factors in determining your FICO Scores. Your credit report and FICO Scores evolve frequently. Because of this, it's not possible to measure the exact impact of a single factor in how your FICO Score is calculated without looking at your entire report.

A higher score can increase the chances of getting approved for a loan or credit card and can usually secure better interest rates. A lower credit score may make it more difficult to get approved for a loan or may be offered higher interest rates, which can make it more difficult to pay off debts.

The VantageScore model was introduced in 2006 when the three major credit reporting bureaus — Experian, Equifax and TransUnion – decided to offer FICO some competition in the credit score business. The VantageScore uses information from all three credit reporting bureaus, but weighs certain factors more heavily or less heavily than the FICO algorithm. Thus, the scores should be similar, but rarely identical.

That’s it for today, have a great weekend.