What Your Fico Score means and how Banks Use This Information

Everyone has a number. Do you know what yours is? Your number, the number by which lenders link you with, is your FICO score. The FICO is a three-digit number assigned by credit reporting agencies to tell potential lenders what the likelihood of you paying back a loan is. The FICO score you carry will change as your credit activity does. What that means is that as your credit may improve or deteriorate so will your score go up or be lowered.

Asking for Credit

In your lifetime, you will probably need credit for something, be it a car, house, or even a credit card. When you do need financing your first stop will be the bank. Besides looking at your employment history, salary and other information, they will aslo view your credit report, which lists your FICO score. The bank will then, based on a number of criteria, view parts of your credit report in order to decide your credit worthiness. The different criteria that the bank will view as important factors are:

- Types of Credit Used – This is basically shows the kinds and number of credit you have had in your name. It will list credit cards, car loans, school loans, or a mortgage.
- Length of Credit History – Shows lenders the time the account was opened and the type of account it is
- Payment History – Is the types accounts you have had, the delinquent payments, past due accounts, the amount of time they have been past due, as well as the accounts that have been paid as was agreed upon
- Amounts Owed – Similar to the payment history, this shows the amounts owed on the accounts, the number of your accounts with a balance still on them as well as any installment loans, and their balances
- New Credit – Lists the number of inquiries on accounts, any recently opened lines of credit, how long the account was opened and the types of credit lines opened.

How the Information Is Used

Banks take all this information and compile it with the other information that you provided and determine your ability to pay back any loan you might be applying for with them. Banks will also determine how high or low of an interest rate to apply to your loan and the length of the loan. FICO scores are a bank’s way of gaudging your risk. The higher of a credit risk you are, the less likely you are to be able to pay back the loan. Your risk also relates to the different kinds of credit options will be available to you. Obviously the higher the FICO score, the lower risk you are and therefore will be more likely to get the kind of credit you want.

Don’t let your FICO score prevent you from applying for credit though. One bank may turn you down but another may approve you. Likewise, one might offer a better rate than another. Applying with two different banks over one bank can give you something to compare when looking for a line of credit. Your FICO score is a large factor in how banks use the information gathered but it is only one of the factors. How they use the information may be different from one bank to the other as well. A person with little established credit may have trouble at one bank because of a lack of credit but might have success at another because the bank didn’t view the lack of credit, and therefore a lower score than most applicants, as negative and approve that person. Always take the time to ask how the bank is using your information to determine your creditworthiness. It will help you understand the process better and provide you with some information the next time you apply for credit.