What Is a FICO Score?

13-17 minutes

Before a lender will approve you for a loan, mortgage, or credit card, they're going to check how you previously handled debt. And that is where your FICO credit score comes in.

This three-digit number, typically between 300 and 850, provides lenders with a snapshot of your potential risk as a borrower. It's based on information contained in your credit report, like your repayment history and the amount of credit you're already using.

Since 90% of U.S. lending institutions use FICO scores to help them determine whether to extend credit to someone, it's crucial that you understand how FICO scores work. That means knowing what goes into calculating the score, what counts as a good score, and how to improve your score if necessary.

Having a great score means you're not only likely to get approved for loans you want, but also that you'll be offered the best rates. Read on to find out more.

What is a FICO Score

Created by the Fair Isaac Corporation in 1989, FICO scores distill the data on your credit reports, such as how much debt you have and whether you consistently pay your bills on time, into a single three-digit number.

This number, created with the help of computer-powered statistical analysis, is designed to tell lenders how likely you are to repay your loans. The strength of your score can affect whether you'll be approved for new credit, the amount you can borrow, the repayment timeline for your loan, and the interest rate you'll pay.

FICO designed its scoring model to provide a standard way to assess creditworthiness that took into account only information contained on the credit reports prepared by the three national credit bureaus, Experian, Equifax and TransUnion. It aimed to make lender credit decisions fairer to consumers by excluding personal details like gender, race, age, and political affiliation that previous companies' credit score calculations had included.

How is a FICO score used?

If you're applying for a personal loan, auto loan, student loan, mortgage, home-equity loan, or credit card, odds are very high the lender will check your FICO score before deciding whether to grant your credit request.

But your FICO score could also play a part in other transactions. Many landlords check an applicant's credit score and credit report searching for a solid record of on-time payments and no red flags like accounts in collections. While a poor FICO score won't necessarily keep you from renting, it could lead you to need a cosigner, roommate, past landlord references, additional proof of income, or a shorter lease period to actually land that space.

Additionally, mobile phone, cable, and utility companies may also review your credit score, says Gerri Detweiler, an author of several books on credit and other personal finance topics. Small-business owners applying for a loan will also find that their personal credit scores factor into lenders' decision making in tandem with their business credit score.

Your FICO score may even affect your love life. That's because a good or bad credit score could be a deal breaker for some daters; 42% of Americans told Bankrate that knowing someone's credit score could be a deciding factor in whether a match moved into the friend zone or went the distance.

Where a Fico score will not be used

Employment is one area of your life your FICO credit score can't directly impact—though your credit report can. While companies can access a modified version of your credit file containing details about past payment behavior and outstanding debt, credit scores are excluded. That's because the particular window credit scores offer into your creditworthiness isn't considered relevant to hiring decisions, according to Experian.

"This is one of the biggest mistakes people believe about credit scores, but they do not keep you from getting a job," says Rod Griffin, Experian's senior director of consumer education.

Another common misconception is that your FICO score will be used in insurance underwriting, says Ethan Dornhelm, vice president of scores and predictive analytics at FICO. Instead insurers use something similar that's known as a credit-based insurance score to help them determine your rates and coverage risk.

Rather than measure how likely you are to repay a loan as a traditional FICO score does, this score aims to gauge how likely you are to file a claim. "It is not the same score you'd see when applying for credit," adds Dornhelm.

How is a Fico score calculated?

FICO uses several different pieces of information about your past and current credit behavior, gathered from either your Experian, TransUnion or Equifax credit report, to assign you a credit score. It does not consider personal details like gender, race, marital status, national origin, location, age, income, or employment history.

FICO groups your credit data into five categories, each of which accounts for a certain percentage of your total score.

- 35% Payment history: How timely you've been with paying bills in the past is the biggest factor affecting your score, and FICO rewards those with no or very few recorded payments past 30 days due or missing.

- 30% Amounts owed: FICO takes into account the outstanding debt you owe across your various credit accounts, such as installment loans and credit cards, as well as the percentage of all credit available to you that you're actively using. Low or no debt and a credit utilization ratio below 30% will net you a better score.
- 15% Length of credit history: FICO considers how long you've had open credit accounts, examining your oldest, newest and average account age, and when you last used each account. It typically favors those with a lengthier credit past.
- 10% Recent credit applications: Number of recent inquiries for your credit report made by lenders and the number of new credit accounts you've opened can drag down your score if FICO sees lots of this activity in a short space of time.
- 10% Credit mix: The overall balance of the kinds of different credit accounts you hold, from a mortgage to a credit card. FICO views successfully managing a variety of loans and lines of credit as a positive, especially if you have experience repaying revolving accounts like credit cards and installment accounts like auto loans.

While every person's score is calculated using those same five categories, the exact percentage breakdown can vary a bit from this general guide depending on a person's unique credit history, Dornhelm warns. For instance, FICO will calculate the score of a new borrower with scant credit differently than someone with two decades of credit history.

What is a good Fico score?

Your FICO score will fall somewhere between 300 and 850, and you want to be at the top of that range. That's because higher scores indicate to lenders that you're a less risky borrower, meaning you're more likely to be approved for that mortgage, credit card or loan you're applying for and receive favorable interest rates.

Lenders typically consider a "good" FICO score to be one above 670, which means you're near or above the average score of U.S. credit users. Below is a breakdown to how lenders generally perceive different scores.

Some industry-specific FICO scores, such as those used by auto lenders and credit card companies, differ slightly in their scoring range, assigning people a number between 250 and 900, though higher values are still considered better.

If your score is in the very good or exceptional range, you can usually expect to be approved for the loans or credit cards you want and to receive the top deals and repayment terms, says Detweiler. Good scores will also typically be approved, but repayment rates will be less favorable and credit limits likely lower than what those with higher scores are offered.

Those in the top end of the fair score range may face issues getting approved and have to target lenders that specialize in products for those with less ideal credit histories. Scores in the bottom end of that range will have trouble accessing credit and pay far more for the privilege when they can, Detweiler adds. Finally, anyone with a poor score will find many lending options closed off to them and will likely need to focus on improving their score before they can borrow or pursue secured or guarantor backed loans.

While the above is generally true, there is no guarantee that a certain score will get you approved or nab you top repayment terms. That's because each lender can, and often does, follow its own criteria for deciding what scores are necessary to qualify for its products.

Why do I have multiple FICO scores?

Because FICO scores were created more than 30 years ago, they have gone through many iterations and updates as the company readjusted its formula to better match people's behavior and lenders' needs. Dornhelm likens it to the procession of iPhone models: New variations are unveiled all the time which capture the latest technological advances, but they all still share a similar base design and functionality that marks them as an Apple phone, he says.

While FICO launched its newest version, FICO Score 10, in 2020, many lenders are still using older models like FICO Score 8 or 9 to assess how risky a borrower is. This means, depending on how quickly a company adapts, you could be looking at scores calculated with one of several different models.

Another reason you may see different scores comes down to how they're calculated. Each time your FICO score is generated, it pulls data from a single credit report prepared by just one of the three major credit bureaus. Any of the three bureau's reports can be used, but your score will always be based on data from just one source.

Since not all lenders report to all three bureaus, small discrepancies may appear. Additionally, your credit reports are updated all the time, meaning a FICO score calculated with the same scoring model and same bureau may be different in just a week's time.

Finally, FICO also has industry-specific versions of its scores which are "fine tuned to better predict whether a person will repay that specific loan," says Dornhelm. For instance, auto lenders typically rely on its FICO Auto Score models while credit card companies use FICO Bankcard Score models.

When you do check your FICO score or scores, which can be done for free, don't get too caught up in the differences between them, says Griffin. "I've never seen someone who has a good score on one version not have a similarly good score on another."

How to find out your FICO score for free

You can discover where your current FICO score stands for free through one of the three major credit bureaus and, often, your bank or credit card company.

With credit bureau Experian, you can check your FICO score for free by setting up an online account. The score shown will be calculated based on the FICO Score 8 model and updated every 30 days based on the data contained within your Experian credit report.

Many credit card issuers, banks and credit unions also offer customers access to their credit score for free through their app, website or monthly statement. Depending on how the credit monitoring program works, you may see a FICO score based on different models and credit bureau reports. And some provide scores that are calculated using an alternate credit rating system like VantageScore rather than FICO.

For instance, Bank of America, Barclays, and Discover give customers access to their FICO Score 8 credit score calculated off their TransUnion credit report. American Express similarly delivers a FICO Score 8 credit score, but determined by Experian credit report data. Citi, however, provides its customers with their FICO Bankcard Score 8 based on the data in their Equifax credit report. While Wells Fargo offers a FICO Score 9 using Experian credit reports.

If your FICO score surprises you, check your credit report for any incorrect or missing personal details or credit information. You can request a free credit report from each of the three credit bureaus, Experian, TransUnion and Equifax, weekly by visiting annualcreditreport.com or calling 1-877-322-8228.

FICO score vs. credit score

While FICO scores are the most widely used type of credit score, they are not the only kind of credit score available to lenders.

In fact, there are several different companies providing a similar calculation of credit risk for lenders and some lending institutions use their own proprietary models to formulate in-house credit scores.

“FICO is a brand of credit score. Think of them like how Kleenex is to tissues or Chervolet is to cars,” says Griffin.

FICO Score vs. VantageScore

Developed by the three credit bureaus, Equifax, Experian and TransUnion, in 2006, VantageScore is an alternative credit rating to the FICO score. It operates similarly to a FICO score, measuring a person’s creditworthiness based on past loan behavior, with repayment history weighing most heavily on the overall score. Newer VantageScore models also follow the same scale as FICO, assigning three-digit scores typically between 300 and 850. Older VantageScore models went from 501 to 990.

While both credit scores use much of the same information in their calculations, the exact formula does differ. For instance, payment history accounts for up to 40% of your VantageScore, but only 35% of your FICO score.

VantageScore may also be more lenient if your credit history is thin. To get a FICO score, a consumer must have a credit account that’s at least six months old and one that’s been used in the past six months. VantageScore will provide a score as long as you have a credit account. It doesnt care how long it’s been open for or if there is recent activity on it.

FICO, however, is more generous when it comes to its treatment of new credit inquiries on a consumer’s credit report, counting all in a 45-day period as a single inquiry. VantageScore does this too, but only for a 14-day period.