

Your Credit Score and Credit Report: An Important Partnership

Courtesy of *CreditDiagnosis.com*

Your credit score and credit report are forever connected. While they're both separate and unique pieces that help form your credit history, you need to understand each to get the entire credit picture. Let's look at each individually first, and then you should be able to see the clear connection.

Your Credit Score Is ...

Your credit score is a number that indicates your overall creditworthiness, and creditors use it to decide how much money they'll loan you. Credit scores from the three major credit bureaus — TransUnion, Experian and Equifax — generally range from about 350 to 850 points. The higher your credit score, the better your overall credit rating.

A high credit score with a corresponding high credit rating means that money lenders think you're a good credit risk. (Most good credit scores range from 600 to 750.) Try thinking of your credit score as your financial report card — your numerical rating for your overall credit history.

Where Your Credit Score Comes From ...

There is a company called Fair Isaac Corporation that maintains FICO scores (the scores lenders use to determine how much you can borrow) and pulls information from each of the three credit reporting bureaus — TransUnion, Experian and Equifax. So that means that your credit score from each of the bureaus will vary.

Understanding Your Credit Score...

Your credit score is calculated by a formula (a "secret" one that only Fair Isaac Corporation knows), but generally it consists of:

Credit History — Long, healthy credit histories are generally viewed favorably.

Payment History — Records of late payments on your credit report will negatively impact your credit score.

Outstanding Credit — Your creditworthiness can be diminished if you already owe a significant amount of money to other institutions.

Existing Accounts — Having too many open accounts can hurt your credit score, even if you aren't actively using them, because it is viewed as credit that's available for your use.

New Accounts — Potential lenders usually view new account activity with caution.

Inquiries — A lot of recent activity on your credit report can lower your credit score.

The relationship between your credit report and credit score

As mentioned, even though your credit report and credit score are separate entities, they are directly related.

Just as your credit score is determined by the information in those six (6) different categories, so too is your credit report broken down six different ways:

1. **Personal information** – This area lists all available information about you, including your date of birth, where you currently live and past addresses — plus other personal details, such as your current employer.
2. **(Credit) Account summary** – This is an at-a-glance summary of your entire account history, and it shows active/open and inactive/closed accounts in your name, as per the three main credit bureaus.
3. **Personal payment history** – This section details your payment history for all credit accounts. You'll see mortgages, or real estate accounts, installment and revolving credit accounts (such as credit cards), accounts in collection and any other accounts in your name.
4. **Public information** – Like the public records notation in your account summary, this section provides specifics on anything in your overall credit report information that is a matter of official public record — like bankruptcies, tax liens or foreclosures — any legal matters related to your personal credit.
5. **Inquiries** – This area lists businesses and agencies that have inquired about your credit during the last two years. For instance, when you apply for credit, the lender will submit an "inquiry" to each of the credit bureaus about your overall credit history.
6. **Creditor contacts** – Here you'll find contact information — such as mailing address, phone number or website address — for all of your current creditors.

How often do I need to check my credit report?

Too many people only check their credit report when they're about to make a large purchase — a home, a car or other big-ticket item. If you do that, you risk being turned down for a loan altogether. Then you could be forced to wait until your credit improves to make important purchases.

That's why companies like Credit Diagnosis offer monitoring services that automatically alert you to any changes in your credit report. These services let you know that your credit status has changed; it's up to you to see what the change is.

Something else to think about: If you only check your credit report — let's say — once a year, you won't stay up-to-date on your credit score for 12 entire months. As a result, you may not be aware of unauthorized changes to your credit report that can not only damage your score — you could also be at risk for identity theft.

Now that you can see how closely related your credit score and credit report are, try not to neglect either of them. Check your credit report regularly and know what your credit score is before you attempt to get a loan or make a significant purchase.

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