



Credit Score Basics

Credit scores are a numerical representation of a consumer's creditworthiness, designed to predict the likelihood that a borrower will repay debt responsibly. The most widely used scoring model in the United States is the FICO score, which evaluates five key categories: **payment history, amounts owed, length of credit history, credit mix, and new credit inquiries**. These categories are weighed differently, with payment history (35%) and amounts owed (30%) making up the majority of the score calculation.

Payment history is the most important factor because it reflects whether a borrower consistently makes payments on time. Even a single missed payment can significantly lower a score and remain on a credit report for up to seven years. Lenders view consistent, on-time payments as a strong indicator of reliability, which is why this category holds the highest weight (Experian).

Amounts owed, often referred to as credit utilization, measures how much of a borrower's available credit is being used. A common guideline is to keep utilization below 30%, though lower utilization is generally better. High utilization signals potential financial strain and can negatively impact a score even if payments are made on time (Experian). This explains why closing credit cards can hurt a score, as it reduces total available credit and increases utilization percentage.

Length of credit history (15%) reflects how long accounts have been active. Older accounts demonstrate stability and long-term credit management, which is why keeping older accounts open is often beneficial. Credit mix (10%) considers the variety of credit types, such as credit cards, auto loans, and mortgages. A diverse mix shows the ability to manage different forms of debt responsibly.

New credit inquiries (10%) include hard inquiries that occur when applying for new credit. While multiple hard inquiries in a short period can temporarily lower a score, soft inquiries, such as checking one's own credit, do not affect the score at all .

A common misconception is that carrying a balance improves a credit score. In reality, this is false. Interest is charged on carried balances, increasing the total cost of borrowing without providing any scoring benefit. Paying balances in full each month not only avoids interest but also supports a strong payment history and low utilization ratio (SWBC/FICO, Experian).

Credit scores are not just numbers but for behavioral indicators. They show patterns of financial responsibility over time, meaning small, consistent actions such as paying on time and keeping balances low have a much greater impact than occasional large payments.

SWBC/FICO (top image): <https://blog.swbc.com/personalhub/how-does-your-credit-score-stack-up>

Experian: <https://www.experian.com/blogs/ask-experian/credit-education/score-basics/what-affects-your-credit-scores> <https://www.experian.com/blogs/ask-experian/debit-card-vs-credit-card-how-are-they-different/>