

# What is a FICO Score and How is my FICO Credit Score Calculated

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Fair Isaacs and Company in the 1950's developed a three digit number that would gauge the credit worthiness of a particular credit applicant. The name of this three digit number that was to become the standard by which banks would measure you as a default risk. What FICO measures in fact is the risk that if a bank lends you money, you will be able to repay the money along with making interest payments. Fair Isaacs and Company, calculates your FICO Credit Score by accounting for a number of factors within your credit file. Some of the factors are such things as..

- Employment History
- Number of Credit Cards Issued
- Loan History
- Late Payments and Defaults
- The amount of credit, such as credit cards issued
- The percentage of credit given to you vs the amount of credit used by you
- Any negative public information about you
- length of your credit history

FICO Credit scores range from 300 to 850, the higher the three digit number, the better your credit is. A low score of say 500 will result in a higher interest rate for a loan and not so favorable terms. The late fees may be higher on these loans. But the banks appear to make most of their, at least credit card revenue, from the people with the lower scores. Effects of a High FICO Credit Score

The effects of a High FICO Credit Score will be evident in especially the low interest rate you will obtain on any financing. Say on a auto loan or mortgage you will have lower payments than say a person with a Low FICO Credit Score. A High Credit Score is anyone that ranges from 680 to 850. Important to note that the higher the end of the spectrum your FICO credit score is, the better overall the loan will be. The banks will make less money on you because they have predicted you will pay on time and pay back the loan. Thus it becomes some what of a self fulfilling prophecy. Your payments will be lower so it will be easier to pay versus a person with a low FICO credit score who will pay higher payments and will be more likely to be late on a payment or default all together. What is a FICO Credit Score to your financial well being? But it simply, if you are going to get financing anytime in your lifetime, your cost of borrowing will be less and the monthly cost of these items financed will be cheaper. What is a FICO Credit Score to an entrepreneur?

To an entrepreneur, starting up a business or many businesses, it's very important. Importantly, in order to compete with more established businesses, you will have to keep your costs low. Since a bulk of an entrepreneur's costs are related to the cost of capital such as equipment financing, etc. a major focus of an entrepreneur would be to obtain a favorable interest rate and terms on any leased items.