

**Credit Missteps: How their affect on FICO scores vary**

You may run into financial difficulties that impact your FICO score. Some difficulties may change your score by a small amount, others can drop your score significantly. What your score was before the difficulty appeared on your credit report also can make a difference.

Here is a comparison of the impact that credit problems can have on the FICO scores of two different people: Alex and Benecia. Note that their initial FICO scores are 100 points apart. First, let's give you a general snapshot of Alex's and Benecia's credit profiles:

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| **Alex has a FICO score of 680 and:** | **Benecia has a FICO score of 780 and:** |
| Has six credit accounts, including several active credit cards, an active auto loan, a mortgage, and a student loan | Has ten credit accounts, including several active credit cards, an active auto loan, a mortgage and a student loan |
| An eight-year credit history | A fifteen-year credit history |
| Moderate utilization on his credit card accounts (his balances are 40-50% of his limits) | Low utilization on her credit card accounts (her balances are 15-25% of her limits) |
| Two reported delinquencies: a 90-day delinquency two years ago on a credit card account, and an isolated 30-day delinquency on his auto loan a year ago | Never has missed a payment on any credit obligation |
| Has no accounts in collections and no adverse public records on file | Has no adverse public records on file |

On the reverse, you can see, how maxing out a credit card has the smallest impact of these credit missteps. Declaring bankruptcy has the biggest impact to their scores. For someone like Benecia with a high FICO score of 780, declaring bankruptcy could lower her score by as much as 240 points. That's because the FICO scoring model generally gives the most weight to payment history when calculating the score, and bankruptcy is included in one's payment history. Also, a bankruptcy often involves more than one credit account, compared with a foreclosure which often involves just a single account.

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|  | **Alex** | **Benecia** |
| **Current FICO score** | 680 | 780 |
| **Score after one of these is added to credit report:** | | |
| **Maxing out a credit card** | 650-670 | 735-755 |
| **A 30-day delinquency** | 600-620 | 670-690 |
| **Settling a credit card debt** | 615-635 | 655-675 |
| **Foreclosure** | 575-595 | 620-640 |
| **Bankruptcy** | 530-550 | 540-560 |

**High scores can fall farther.** Notice that Benecia would lose more points for each misstep than would Alex, even though her FICO score starts out 100 points higher. That's because Alex's lower score of 680 already reflects his riskier past behavior. So the addition of one more indicator of increased risk on his credit report is not quite as significant to his score as it is for Benecia.

**Settling a credit card debt is the third credit problem listed**. It means that the lender agrees to accept less than the amount owed on the account. A settled account indicates a higher level of risk and typically happens only when an account is overdue. So in Benecia's case, to help make the debt settlement plausible we also added a 30-day delinquency to her credit report. Her new score reflects both changes. Alex's credit report already included a recent delinquency.

**Are you more like Alex or Benecia?** Many different combinations of information on a credit report can produce a FICO score of 680 or 780. Depending on what's on your own credit report, your credit score experience may vary from that of Alex or Benecia. By taking a look at your own credit report and comparing it to the profile of Alex and Benecia, you might be able to learn what to expect if you happen to encounter a credit misstep.

Source: myfico.com