Credit Report vs Credit Score

Every activity that involves lending will require your credit score or credit report or both. Lenders use either or both to access your ability to pay back what they have lent out to you.

This means the limits on your credit card, the terms of your car loan, the terms of that mortgage you need to buy your dream house, are all determined by your credit score and your credit report.

Credit is now a part of our day to day life and having the skills and creditable information to manage your credit is a necessity. The information you need can be found in your credit score and your credit report.

Yet, according to a 2016 survey by the Consumer Federation of America,

"Only 51% of millennials have ever obtained their credit score, and only 57% have ever applied for a copy of their credit report"

People who neglect these two key financial reports are denying themselves of valuable insights that give a comprehensive picture of their current financial situation.

Many often use the terms credit score and credit report interchangeably, but they are different and they offer different insights into your history with credit.

A credit report gives a detailed overview of your credit history and shows how you have repaid your debt obligations in the past, while a credit score puts a number on your creditworthiness using the kind of information you will find in a credit report.

In this article, we will look at the meaning of both terms, their differences, and how both are connected.

What is the meaning of a Credit Report?

A credit report is simply an overview of your history of paying debts and other obligations and how reliable you were in doing so.

The report contains information like the types of credit accounts you have, the number of accounts you have, the age of your accounts, how you used debt, your payment history, your outstanding debts, and more.

The report will also show everyone that has obtained your credit report over a period. This is because some employers, and some lenders, especially credit card companies would have requested a copy of your credit report at one time or another.

Credit reports are generated with information obtained from banks, credit card companies and other lenders by Credit Reporting Agencies/ Credit Bureaus.

There are three major credit reporting agencies, they are:

- Experian
- Equifax
- Transunion

These agencies make their money by using information they obtain from banks, credit card companies, the government, and other lenders to prepare personalized credit reports that they sell to creditors who use it to determine the creditworthiness of customers.

In view of the fact that your credit report is of such importance, what sort of information can be found in a credit report?

Your personal data: The report contains your name, your date of birth, your address, your Social Security Number, and your employment status. These agencies keep their data up to date using any recent information you provide anytime you apply for credit. They call this type of data, Personally Identifiable Information (PII).

Your credit accounts: Your credit accounts are your credit card debt, your car loans, your mortgage loans, and any other debt you have. The report will show your history with each type of credit, it will show when you obtained the credit, your balance, your payment status, and your payment history.

Your history of credit inquiries: Anytime you try to obtain credit, a record of your inquiry is created. These inquiries are classified as either "soft inquiries" or "hard inquiries".

Soft Inquiries are applications you make for preapproved credit offers that are based on your credit history, while Hard Inquiries are applications you make for debt.

Soft Inquiries are not available to lenders on your credit report and you are the only one that can see them, so they don't affect your creditworthiness.

Hard Inquiries, on the other hand, are very important to lenders, and the more hard inquiries you have, the more it impacts your creditworthiness. When you have many multiple Hard Inquiries it shows lenders that you are recklessly accumulating credit accounts and it negatively impacts your credit score.

Public Record Data and Collections: Your Public Record Data is generated from any information on you that is listed in local, county, state, or federal courts and it includes bankruptcy proceedings, foreclosure, judgment, tax lien, and repossession.

A collection is usually reported to credit bureaus by collection agencies after you fail to repay an outstanding debt that is way past due, and it forms a part of your credit report.

How can you get your credit report?

You are entitled to a free copy of your credit report from each of the three agencies mentioned earlier every 12months. The place to request for this is AnnualCreditReport.com.

You should keep in mind that the information you get from each agency will have differences and some will even contain errors.

Who can see your credit report?

Some of the entities below will need your permission to obtain your credit report, while some are empowered by law.

- Government agencies
- Employers
- Landlords
- Mortgage lenders
- Student loan lenders
- Insurance companies
- Collection agencies

What is the meaning of a credit score?

A credit score is a three-digit number that serves as a grade of your creditworthiness and it is used by lenders to decide whether or not they should lend you money and to decide the terms of your loan.

The most commonly used credit score by lenders is the FICO score. It computes scores from 300 to 850 and a good score will be between 700 and 749. If you have excellent creditworthiness, then your score will be from 750 and above.

FICO uses five factors to determine your score and they are:

Your repayment history: This affects 35% of your score and it is the most important factor. If you have never missed a payment then you should axe this. However, even a single late payment will negatively impact your rating. A history of consistent late payments will make it very difficult to get a good score.

The amount you owe: This affects 30% of your score. FICO will look through all your credit accounts and determine how much you owe across board. It will also examine the percentage of your available credit that you are using (credit utilization ratio). If you have a high credit utilization ratio, then FICO will deduce that you are spending too much and penalize your score.

Your credit history: This affects 15% of your score. You are often advised to avoid debt, but avoiding debt can actually negatively impact your FICO score. Creditors like to see a credit history that goes back a number of years so that they can evaluate your ability to responsibly manage your debts. Credit history of more than seven years is often considered ideal.

The mix of your credit accounts: This affects 10% of your score. A balanced mix of credit accounts will boost your score.

Multiple Hard Inquiries: This affects 10% of your score. Remember that Hard Inquiries are applications for credit, and anytime you make a Hard Inquiry it impacts your score. Multiple recent Hard Inquiries will negatively impact your score.

How can you get your credit score?

Purchase your credit score: Credit reporting agencies like FICO or VantageScore will provide you with your credit score for a fee.

Use a free online Credit Score Service: Websites like Mint, Karma, and Credit Sesame will provide your credit score for free.

Your bank statement: Many banks will include your credit score in your bank statement and you can either request for it or you can simply access it online from your account.

Who can see your Credit Score?

Most lenders will ask for your Credit Score before they give you credit. They use your score to determine your creditworthiness and to set the terms of credit. Some of these entities are:

- Insurance companies
- Credit card companies
- Mortgage lenders
- Landlords
- Car loan companies
- Student loan companies
- Collection agencies

Differences between Credit Report and Credit Score

A Credit Report is comprehensive while a Credit Score is just a number: A credit report depicts your financial situation in detail. It is what you have to read if you want to know the reasons behind your credit score. It is where you will see your loan repayment history, your debt load, your credit history, and what influences your FICO score.

A Credit Score, on the other hand, is just a score. It shows your financial health is a simple snapshot. If you have a high score, your creditor will be confident to lend to you and will give you favorable terms, and alternatively, if you have a low score it will negatively impact your creditworthiness.

You can get Credit Reports for free while you may have to pay to see your Credit Score: All of the three major credit bureaus will provide you with a free copy of Credit Report upon request once a year, while if you want to get your Credit Score from a credit bureau like FICO, you have to pay for it.

Your Credit Report is consistent while your Credit Score changes from time to time: Provided you avoid multiple late payments and don't open new credit accounts, your Credit Report will remain consistent month to month. However, any activity that impacts your credit positively or negatively will affect your Credit Score and this makes your Credit Score more volatile.

Keep track of your Credit Reports

There is no Credit Score without a Credit Report so you have to keep an eye on your Credit Report. You must always go through your reports and verify that your data is accurate and doesn't contain any unfamiliar activity.

If you notice any errors, contact the credit bureau and get them to fix the errors.