**What is Credit Scoring?**

Credit scoring is a statistical analysis that lenders and financial institutions conduct to access the creditworthiness of an individual. Lenders refer to credit scores to decide whether to extend or refuse credit. A credit score for an individual is a number between 300 and 850, 850 being the highest possible credit rating. A credit score impacts financial transactions, such as credit cards, mortgages, car loans, and personal loans.

A credit score is influenced by five factors—payment history, types of credit availed so far, new credit, current debt, and length of credit held. The lender needs to pay special attention to current [debt](https://cleartax.in/g/terms/debt) and [payment](https://cleartax.in/g/terms/payment) history.

Lenders use [credit scoring](https://cleartax.in/g/terms/credit-scoring) in risk-based pricing, in which the terms of a loan provided to lenders, including the [interest](https://cleartax.in/g/terms/interest) rate, are based on the likelihood of repayment. Generally speaking, the higher a person's credit score, the better the [interest rate](https://cleartax.in/g/terms/interest-rate) the financial institution provides to the customer.

**Credit Scoring vs Credit Rating**

There should be no confusion between similar concepts, credit ratings and credit scoring. Credit ratings are valid for companies, sovereigns, sub-sovereigns, and securities of those entities as well as securities backed by assets.

Credit scoring models reflect a picture of your credit relationship and scores can differ (although not drastically) between the three major credit bureaus. A credit [rating](https://cleartax.in/g/terms/rating) defines both the interest rate for the loan and whether a credit or debt [issue](https://cleartax.in/g/terms/issue) will be accepted for the borrower.