Changes In The Vantage Score System

Q: I've heard that the Vantage Score system is getting an overhaul. What kind of changes are being made and how will this affect the way my score is calculated?

A: The Vantage Score, which dictates the way credit bureaus -- Experian, TransUnion and Equifax -- determine your credit score, is going through a shake-up this fall. The company is looking deeper into specific circumstances and what they say about your financial responsibility.

Having a favorable credit score comes into play when you need to qualify for financing on a new car, if you're opening a new credit card, or you want to take out a loan. In each of these scenarios, your credit score is the most important deciding factor for your approval, and will also influence your terms and interest rates.

It's important to note that the new system will not impact mortgage loans. This is because few mortgage lenders use Vantage Score; most use FICO scores to verify eligibility.

The changes will affect the credit scores of many people, though, for better or for worse. It's wise to learn all you can about these changes so you can make the necessary adjustments to your credit behavior.

Lucky for you, we've made it easy! We've broken the changes down into the three main areas they impact, and then we've simplified it by telling you what these changes mean for you.

Read on to learn all about it!

1.) Trended data and trajectories

What it means:

Under the modified system, Vantage Score won't just check if you're meeting your minimum monthly payments; it will consider trended data, too. This means the company will analyze the trajectory of your debts on a month-to-month basis. They want to know the direction in which your finances are going. Are you gradually paying down debt, or are you scraping by with the minimum payments as your balance slowly grows?

What it means for you:

In the past, your score wasn't affected by growing debt as long as you were making the minimum payments on your cards. Now, if you're careful about making the monthly payment but your balance is increasing each month, your credit score will take a hit.

Conversely, if you're working toward actually paying down your debt, your score will likely get a boost. If you don't fall into this category, it's time to get serious about doing away with your debt for good. Even small steps toward this goal will be recognized and rewarded.

2.) Large credit lines

What it means:

Having lots of available credit was once considered a mark of good credit. After all, if the companies deemed you responsible enough to merit all that credit, it's gotta be a good thing, right? Well, not anymore.

With the new system in place, Vantage Score will mark a borrower negatively for having excessively large credit card limits. The theory behind this rationale is simple: lots of open credit means the borrower can quickly rack up a huge bill.

What it means for you:

If you enjoy an excellent credit score, you likely have a large line of credit available and will be negatively impacted by this change unless you take action. This change also upends the old advice that the more credit cards you have open, the better. The rationalization behind that maxim was to build your available credit, and thus, improve your score. With the modified system, though, the opposite is true.

Let's say Bob has $4,000 in credit card debt with a $40,000 limit across several cards. He's only using 10% of his available credit. In the past, this would net him a higher credit score. Bill, on the other hand, has $1,500 in debt out of an $8,000 limit. In the past, this modest credit limit would lower his score.

With the new changes in place, the realities are shifting. Bob, who has a lot more available credit, will likely score lower than Bill, who only has $6,500 available to borrow.

Aside from those who enjoy prime credit scores and have several open cards, this change will also affect people who enjoy playing the credit card rewards-and-points game.

Whichever category you fall into, it's best to use less than 30% of your available credit. Also, if you have a large credit line open across several cards, consider closing some of your cards to lower that number. Finally, if you're thinking of opening a new card in the near future, ask for a smaller credit limit over a larger one.

3.) Medical debt, tax liens and civil judgments

What it means:

Medical debt, tax liens and civil judgments will no longer be factors at play when determining your credit score. These elements are being removed with the rationale that they often harm a credit score prematurely and are later proven erroneous. Civil judgments and tax liens are often inaccurate, and can significantly lower one's score before the error is corrected. Similarly, medical debt can hurt credit scores before insurance can reimburse the borrower for the payments.

What it means for you:

If you've had any of the above dragging down your credit score, you have cause to celebrate. In fact, you might even see a jump of as much as 20 points to your score! On the flip side, if you have negative marks from things like delinquencies and debts that have gone to collection agencies, this new rule won't help you much.