

CREDIT SCORE vs CREDIT RATING

Education Series #3



Assessment types	CREDIT SCORE	CREDIT RATING
Definitions	<p>'credit score' means a measure of creditworthiness derived from summarising and expressing data based only on a pre-established statistical system or model, without any additional substantial rating-specific analytical input from a rating analyst.</p> <p>CRA regulation - Article 3, Definitions (1)(y)</p>	<p>'credit rating' means an opinion regarding the creditworthiness of an entity, a debt or financial obligation, debt security, preferred share or other financial instrument, or of an issuer of such a debt or financial obligation, debt security, preferred share or other financial instrument, issued using an established and defined ranking system of rating categories.</p> <p>CRA regulation - Article 3, Definitions (1)(a)</p>
	<p>'Credit score' and 'credit ratings' both relate to creditworthiness. The difference lies in the process and the "rating-specific analytical input from a rating analyst".</p>	
Sources	Credit bureaus (or proprietary models)	Credit rating agencies
Assessed entities	Individuals and corporates (typically SMEs)	Corporate non-financial, financial institutions, insurance, sovereign, structured finance
Assessment volume	High (i.e. millions by country)	Low (i.e. few hundreds by country)
Time horizon	Usually short term (i.e., up to one year)	Usually medium term (i.e. from one to five years) depending on the credit rating type
Inputs and process	<p>The process for assigning scores is designed to be mostly automated, utilizing financial and/or behavioral data from various sources for high-volume issuance. It includes efficient automated report generation, with minimal human intervention required.</p>	<p>Credit rating processes are primarily based on detailed human analysis, requiring a critical review of information by rating analysts and committees. This includes analyzing industry developments, competitive position, corporate governance and strategy and adjusting financial statements and projections. The issuance of credit ratings is a manual process that involves tailor-made, in-depth reports and cannot be fully automated as per regulatory requirements.</p>
Expression of outputs	Usually numeric (e.g. base FICO score range from 300 to 850).	Usually, alphanumeric (e.g., AAA, AA, A, BBB, BB, B, CCCC, CC, C, D).

About EACRA:

The European Association of Credit Rating Agencies (EACRA) is a platform for cooperation among EU-based Credit Rating Agencies (CRAs). Our mission is to support CRAs in meeting regulatory requirements through effective communication, cross-border knowledge sharing, and the promotion of best practices. EACRA also seeks to advance the understanding and value of Credit Ratings within the financial community and among the general public, while advocating for the interests of CRAs across Europe. Established in November 2009 and registered in Paris, EACRA is listed in the French Association Directory (N° W751202513) and the EU Transparency Register (ID 24205924101-57).