Explaining Your FICO Score

What is a credit score?

A credit score is derived from information in your credit report. Your credit report reflects how you have handled your available credit in your past, and your credit score predicts how likely you are to pay your bills in the future based on information in your credit report.

You have three credit scores.

One from each national credit bureau, which are a measure of your financial responsibility, based on your credit history. The score most often used by lenders is the FICO® Score, developed by FICO™. Scores typically range between 300 and 850.

www.credit.org

Fico Score	Interest	Monthly Payment	Total Interest
740 - 850	7.6%	$2,259	$486,000
680-739	7.9%	$2,326	$517,000
620-679	8.1%	$2,370	$533,000
550-619	8.6%	$2,483	$574,000
300-549	9.5%	$2,691	$649,000

How does your score affect your buying power?

FICO® Scores provide the best guide to future risk based solely on credit report data. The higher the score, the lower the risk. But no score says whether a specific individual will be a “good” or “bad” customer. And while many lenders use FICO® Scores to help them make lending decisions, each lender has its own strategy, including the level of risk it finds acceptable for a given credit product.

There is no single “credit score” used by all lenders and there are many additional factors that lenders use to determine your actual interest rates. Many lenders use their own scores, which may include the FICO® Score plus other information about you.

Your credit scores may be different at each of the three main credit-reporting agencies because the score only considers the data in your credit report at that agency.

Your FICO® Score changes over time as your data changes at the credit reporting agency, so your score from a month ago is probably not the same score a lender would get from the bureau today.

You may monitor your own credit reports; call 877-322-8228 to get your free annual credit report (one report per bureau, per week), or go to www.annualcreditreport.com.

BEWARE of imposter websites that are “phishing” to steal your identity. You may want to opt out of pre-screen credit card offers by calling 1-888-5OPTOUT or visit www.optoutprescreen.com. To avoid unwelcome phone solicitations, you may call 1-888-382-1222 to register on the Do Not Call Registry.

The higher your FICO® Score, the lower your payments!

$320,000 mortgage loan amount: based on California interest

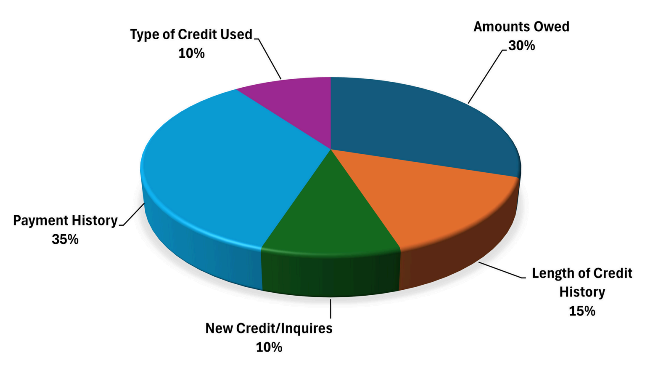
- 9.5% would be a $2,691 payment (300-549 score)
- 8.6% would be a $2,483 payment (550-619 score)
- $208 per month savings
- $74,880 less paid in interest over the life of the loan

Better credit translates to reduced interest rates and lower payments. This may mean the difference in qualifying to make the payment to obtain the loan. Poor credit may increase your interest rates and erode your buying power.

Explaining Your FICO Score

What Makes Up Your Credit Score?

There are five main categories that determine your final FICO® Score. Your score takes into consideration all positive and negative information in each of the following categories:



• **35% Payment History** measures how your have paid in the past, and the equation includes both positive and negative information. You gain points for not having missed any payment and lose them if you have missed some.

• **30% Amounts Owed** measures debt owed against the credit limit. If you are maxed out on 3 credit cards the FICO scoring model will pay attention to that. A $10,000 debt load measured against a $10,000 credit limit will score lower than a $2,000 debt load against a $10,000 credit limit.

• **15% Length of Credit History** is an average. If you have had one account for 20 years (240 months) and five other accounts for one year each (5 times 12 months) the formula would calculate as follows: 300 total months divided by six credit accounts equals an average of 50 months or four years two months. Be cautious about closing accounts you opened many years ago, and even more cautious about opening too many new accounts, as this can impact your credit history average. Older accounts kept open with occasional use each year help retain valuable credit history and may help your score.

• **10% Type of Credit Used** reflects the mix of your credit accounts and how you manage different kinds of credit (credit cards, auto loan, installment loan, home loan); lenders usually like to see a good mix of credit types, used responsibly.

• **10% New Credit/Inquiries** reflects your interest in or propensity for getting new credit. Too many inquiries can lower your credit score.

Improving Your Score and Payment History Tips:

This takes time. There are no quick fixes. Your credit score is your financial DNA; it affects many areas of your credit life.

1. There are no quick fixes; it takes time for the effects - both good and bad - to be seen and felt. Review your credit reports regularly.
2. Pay your bills on time. If you've missed payments, get current and stay current.
3. Keep your balances below 25% of the line of credit on cards and other revolving credit accounts.
4. Pay off debt rather than moving it around. Don't close unused credit cards as a short-term strategy to raise your score. Keep old credit "active".
5. Limit inquiries. Don't open too many new accounts too rapidly. Apply for and open new accounts only as needed.
6. Revolving, installment, mortgage - don't concentrate all credit to one type of account.
7. Be aware that paying off a collection account will not remove it from your credit report; it will stay on your report for seven years.
8. Junk Debt Buyer alert - also called "zombie" debt. Understand your rights prior to communicating with and/or making any payment commitment to a Junk Debt Buyer.
9. Ask your local bank or credit union for information on a secured credit card (that reports the payment history to the credit reporting agencies) to re-establish your credit.
10. At a macro level, public records (e.g. foreclosure filing, tax liens, judgements, bankruptcy) and collection items are regarded by the FICO model as very serious (compared to 30, 60, or 90 days late).

More Information

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