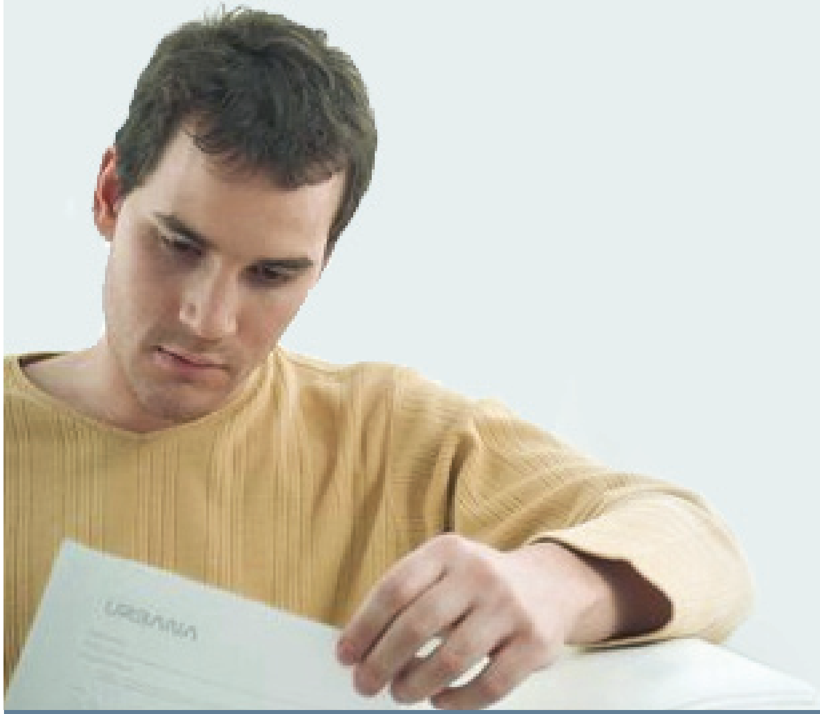

Understanding your Credit Score

LexingtonLaw

Understanding Your Credit Score

Fair, Isaac and Co. is the San Rafael, California Company founded in 1956 by Bill Fair and Earl Isaac. They pioneered the field of credit scoring for financial companies. They have expanded their enterprise to cover decision systems, analytics and consulting. Every credit agency, and most lenders, calculate your credit score using software from FICO (Beacon) or in house software based on the FICO rating system.

What does your credit score mean?

This rating system is meant to develop a snapshot of the risk you currently represent to a lender. Several parameters in your credit file, including length of credit history, number of open accounts, loans, mortgages, public records, and others are formulated to produce a three-digit score between about 300 and 950. There are other scores used by lenders and insurance companies (some of which are developed by FICO) such as Application and Behavior scores. These other scores take other information into account. Usually a lender will use a combination of your credit score with other factors when determining your risk. They all have the same objective, to determine the borrower's potential risk. Regardless of whether the score was generated by FICO or a system based on FICO parameters, they all yield an industry standard three-digit score. This score places the borrower in one of three main categories (we named the third one ourselves.)

To learn more about what your credit score means
please call: 1.800.280.9121

Prime, sub-prime, and shafted

Prime :

If your credit score is above 680, you are considered a "prime borrower" and will have no problem getting a good interest rate on your home loan, car loan, or credit card.

Sub-prime :

If your credit score is below 680, you are "sub prime", and will likely pay a much higher interest rate on your loan.

Shafted :

Below 560 is the shafted score. At least that is how most lenders and credit issuers perceive it. You can still get a credit card but you will likely be hit with a security deposit or high acquisition fee. In addition to that your interest rate will likely be 22 to 23%. You can forget about most home loans and the majority of new car loans at this score. Below 560 is no place to be. You will pay much, much more in higher interest and unnecessary fees. You may even pay more for your insurance rates. A very low score can even prevent you from getting a job with many companies.

How much does your low score cost you?

Credit Cards Most if not all prime credit cards are entirely out of reach to consumers with bad credit. And the few credit cards that are available to them (known as "sub-prime" cards) typically require exorbitant setup fees or recurring monthly fees, offer very low credit lines, often require cash deposits, and in most cases do not even report your positive credit activity to the credit bureaus.

Automobile Financing If you are making payments on a car, you are probably paying between $5,000 and $9,000 more just for having bad credit. This added interest shows up every month in a higher payment. Take a look.

$20,000 car paid over 5 years:

CREDIT STATUS	RATE	PAYMENT	COST OF BAD CREDIT
Perfect	10%	$424.94	$0.00
Mildly Damaged	14%	$465.37	$4,722.54
Damaged	20%	$529.88	$8,593.30

Home Mortgage Bad credit in auto financing can really hurt, but it is nothing compared to the cost of bad credit when a home is involved. A typical home can cost between $50,000 and $130,000 more in interest if you are buying the home with bad credit.

$100,000 paid over 10 years:

CREDIT STATUS	RATE	PAYMENT	COST OF BAD CREDIT
Perfect	10%	$424.94	$0.00
Mildly Damaged	14%	$465.37	$4,722.54
Damaged	20%	$529.88	$8,593.30

As you can see, a low score can cost you hundreds of dollars per month. Which is why it is so important to obtain and maintain as high a score as possible.

To find out what your low score is costing you,
please call: 1.800.280.9121

How are credit scores calculated?

The methods of calculating your FICO may differ slightly depending on the credit bureau. When obtaining your score from one of the Credit Bureaus it is important to understand that your score does not come directly from FICO. It is adapted to each bureau and is given its own name: Equifax uses “Beacon”, Trans Union uses “Empirica”, and Experian uses “Experian/Fair Isaac.” These scores are also referred to as your “Bureau Scores.”

Since your score is derived from your bureau data, it will change every time your reports change. However your score is calculated, it will always take into consideration many categories of information. No one piece of information or factor determines your score. As the information in your credit report changes, the importance of one or several factors may change in your FICO score. Lenders look at many things when making a credit decision, including your income and the kind of credit you are applying for. However, your FICO score does not reflect these facts as it only evaluates the information retained by the credit reporting agency.

What factors affect your credit score?

There are five factors which are used in credit scoring calculations that determine your overall credit score.

Previous Credit Performance (Payment History) 35% A lender wants to know what your payment history is like. Have you paid everything on time, are you late on anything now, and so on. Your payment history is just one piece of information used in calculating your score, although it can be the very important.

- Payment history on your accounts. These include credit cards, retail accounts (department store credit cards), installment loans, finance company accounts and mortgage loans.
- Collection items and Public records. This includes judgments, bankruptcies, suits, liens, collection items and wage attachments. Most of these are considered quite serious, although older items count less than recent ones.
- It's all in the details. This includes specific details on late and missed payments. Negative information/late pays are determined using three factors.
    - **Recency - How long ago was the last delinquency? How old is the late pay?**
      A 30-day late payment made just a month ago will effect your score much more than a 90-day late payment from five years ago.
    - **Severity - What level of delinquency was reached?**
      How late was the payment made? 30 days, 60 days, 90 days or worst of all, is the payment still outstanding.
    - **Prevalence - How many credit obligations have been delinquent?**
      The amount of negative items as compared to your total amount of available credit. For instance, 5 accounts showing 3 late payments is much worse than 10 accounts showing 4 late payments. One of the biggest sub factors is how many accounts show no late payments.

A good track record on most of your credit accounts will increase your over all FICO score substantially.

Current Level of Indebtedness (Amount Owed) 30% How much is too much? Can the borrower pay me and still afford to pay his other bills? Not necessarily. Having available credit can actually help your ratio of debt to available credit. These are the types of questions that most borrowers want to know and the answers are almost as important as your previous credit history.

- Total amount owed on all open accounts. Paying off your credit cards in full every month, does not mean that they won't show a balance on your report. Your total balance on your last statement is generally the amount that will show in your credit report.

- Specific types of accounts, such as credit cards and installment loans are scored differently and in conjunction with the overall amount owed on all open accounts. This also factors into your balance on each specific type of account. For instance; you have a credit card with a very small balance and no late pays. Even though the balance is low, this still looks very good as it shows that you are able to manage your credit responsibly

- How many accounts do you have open and how many have balances? A large number of open accounts, even with small balances, can indicate higher risk of over-extension. This is weighted in your FICO score but most lenders leave it to their discretion as they have access to your income amount. For the most part though it is good not to have too many credit card accounts, three maximum.

- How much of the total credit that is available to you are you using? In other words, Are you close to maxing out? For example, if you have a credit card with an available credit line of $1000 dollars and you have a current balance of $850.00 or more, then you are nearly "maxed out." Several credit cards or other debts with balances approaching the credit limit will effect your score negatively. Even if you have made your payments responsibly. Your FICO score will factor your overall ratio of debt to your overall limits.

Want to know what factors affect you credit score?
please call: 1.800.280.9121

Your score takes into account:

How many new credit obligations have recently been assumed? Opening several credit card accounts at the same time can look bad. What FICO looks for is "To what extent is this consumer trying to open new credit accounts?"

How recent were these efforts? How long it has been since you opened a new account. Primary consideration is given to the following:

- Number of inquiries in last six months
- Number of trade lines opened in last year
- Number of months since most recent inquiry

There are no good inquiries. Inquiries are typically seen as a request for credit and thus are factored as if you are searching for credit. Every time you fill out one of those credit card applications to get a free hat, you are also getting a free inquiry. Every time you fill out an online application for a credit card, or other type of loan, you are getting an inquiry. Too many inquiries looks bad. While there are no good inquires there are neutral inquiries. These inquiries are most often known as:

- Consumer initiated. A request for your credit report shows as a consumer inquiry. When you run a credit check on yourself. (provided that you don't call your mortgage broker buddy to pull your report)

- Pre-Approval. If a potential lender has viewed your credit reports to determine whether they want to offer you a loan, these are not factored into your score. However, once you fill out a credit application, your full report will be reviewed and a "bad" inquiry will appear on your reports.

- Periodic Review. Many lenders will periodically review the credit reports of their current customers to see if there have been any major changes to their credit reports. If the lender discovers that your credit score is now too low for their standards, they may close your account. These inquiries created as a result of the periodic reviews are not supposed to be factored into your credit score.

TYPE	# OF DAYS	# OF INQUIRIES	NOTES
Dept Store	68	1	Applied for one dept card
Mortgage	65	1	Two mortgage apps with in 30 days of each other counts as only on injury
Mortgage	56		
Auto	25	1	
Auto	9	Not counted at all if within 30 days of first inquiry	These two don't count at all they were within 30 days of the first app and within 15 days of each other
Auto	7		
Bank Card	5	1	

How inquiries are computed is somewhat complex. The above table is meant as a basic guide but does not cover all the different calculations. As a reasonable measure you should avoid unnecessary inquiries. The system is designed to take into account rate shopping but things like applying to credit card offers will add inquires to your file.

Types of Credit Experience (10%) A healthy mix of different types of credit, installment loans, retail accounts, credit cards, and mortgage. This score is not normally a key factor in determining your score but it can help a close score. Its not a good idea to try and open different types of accounts just to try and make this factor better. It will likely reduce your score in other areas. You should never open accounts you don't intend to use anyway.

What type of accounts you have, and how many, can make a big difference. The optimal ratio of installment versus revolving accounts depends on your profile and differs from person to person. One factor that seems to have significant influence is your percent of open installment loans. Too many can lower this portion of your score.

To find out what your score takes into account,
please call: 1.800.280.9121

Cracking the code.

If you are denied credit, you will receive four reason codes which indicate why you were denied. These codes appear in order of importance, below. The first code has the strongest impact, followed in declining impact by the second, third and forth reason.

A typical readout your lender might view follows. This particular readout presents information from all three credit agencies. In the example below, the individual failed to qualify for each credit agency and the reasons are listed in descending order.

***** BORROWER: SMITH, JOE M. *****

TU Score: [00623]
Reason1=[022] Reason2=[016]
Reason3=[028] Reason4=[004]

Experian Score: [00629]
Reason1=[022] Reason2=[016]
Reason3=[028] Reason4=[032]

Experian Score: [00617]
Reason1=[022] Reason2=[016]
Reason3=[028] Reason4=[032]

All three credit agencies do not always have the exact same information therefore your three scores will differ slightly. As a general rule though, if you fail to qualify at one agency you are likely to still be denied if one of the other bureaus is checked. Most mortgage loans companies will run all three credit agencies and take the lowest score.

REASON	EXP.	T.U.	EQU.
Amount owed on account is to high	1	1	1
Delinquency on Accounts	2	2	2
Too few bank revolving accounts	3	N/A	N/A
To many account with balances	4	N/A	N/A
Consumer finance accounts	5	5	5
Account payment history too new to rate	6	6	6
Too many recent inquiries last 12	7	7	7
To many accounts opened in last 12 mo.	8	8	8
Proportion of balances to credit limit is to high	9	9	9
Amount owed on credit history is too short	10	10	10
Length of credit history is to short	11	N/A	N/A
Lack recent bank revolving information	12	12	12

Note that these codes change often, and may not represent the current codes as of this writing.

To learn more about cracking the code,
please call: 1.800.280.9121

Improving your credit score.

Now that you know how your score is calculated, you can begin making changes to your current financial planning. The best things you can do are simple.

- Pay your bills on time. Sounds simple, but this is the biggest thing you can do to keep your score high. Delinquent payments and collections have a major negative impact on a score.

- Keep your balances low on unsecured revolving debt like credit cards. High outstanding balances can affect a score.

- The amount of your unused credit is an important factor in calculating your score. You should only apply for credit that you need.

- Make sure the information in your credit report is correct. If its not, dispute it with the credit agencies and/or with the creditor directly.

- Removing negative items on your credit reports has the biggest impact on your FICO score. Generally, negative items stay on your reports for seven years but you can hire a professional credit report repair service such as Lexington Law Firm to do it for you.