

# FICO® Credit Score

A FICO® score is the most widely used by creditors and lenders today. It is useful in directing applications to specific loan programs and to set levels of underwriting, i.e. streamline, traditional or second review. The FICO score is widely used because it is objective, consistent, accurate and fast. Your 3 digit FICO score will determine what interest rate you will pay on your credit cards, mortgages, and auto loans.

FICO scores were developed by Fair Isaac & Company, Inc. for each of the credit repositories. The scores are: (Equifax) **Beacon**, (Experian, formerly TRW) **Experian/FICO** and (TransUnion) **Empirica**. They are simply repository scores meaning they only consider the information contained in a person's credit file; they do not consider a person's income, savings or amount of a down payment for a mortgage.

Your score may be different at each of the three main credit reporting agencies. The FICO score from each credit reporting agency considers only the data in your credit report at that agency. If your current scores from the three credit reporting agencies are different, it's probably because the information those agencies have on you differs.

But no score says whether a specific individual will be a "good" or "bad" customer. 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 "cutoff score" used by all lenders.

A FICO score is based on the information in your report at that particular credit bureau. The actual scoring process is proprietary, and the algorithms are copyrighted. A score is determined by summarizing a number of factors.

## Your FICO Score is calculated by following the rules below:

- **Previous credit performance (35%) : How's Your Payment History?**

*Information about the way you paid your credit accounts in the past, including late payments and bankruptcies.*

FICO considers whether you have accounts in collection; whether you have any delinquencies, and how frequent and recent they are; and whether you make your payments on time. How much impact each item has on your score depends on what other information is in the report. For instance, one late payment may not affect your score significantly if the rest of your history is good, because the model looks at credit patterns, not isolated credit mistakes. In addition, FICO gives you points for maintaining a good payment relationship.

- **Current level of indebtedness (30%): What is the Amount of Outstanding Debt?**

*The amount of credit you are using, and the amount of credit still available.*

FICO considers the number of balances recently reported, the average balance across all trade lines, and the relationship between the total balance and total credit limit. FICO considers your current level of borrowing and whether you are close to or over your limit. Carrying too much credit is held against you even if you do not have balances on those cards.

- **Time credit has been in use (15%): How established is Your Credit History?**

*The number of months your credit accounts have been on your credit report.*

FICO looks at how long you had your account, the total number of inquiries and new accounts opened, the number of inquiries and new accounts opened in the last year, and the amount of time since the most recent inquiry. Banks, department stores, employers or landlords make "inquiries" on your credit report every time you apply for credit or a loan at that institution. The FICO scoring model considers inquiries because statistics show that those anticipating financial troubles try to increase the number of credit lines they have available. The FICO model has taken into account certain lender practices that normally would negatively affect your credit report. For instance, if you were interested in buying a car and the dealer agreed to finance you, the dealer may run credit inquiries on various lenders, which would then show up as numerous inquiries on your credit report.

Beginning the 1st quarter of 1998, FICO models treat **all inquiries occurring within a 14-day period** as 1 inquiry. In addition, all models **ignore all auto-and mortgage-related inquiries 1 occurring within a 30-day period** before calculating your score.

- **Types of in use (10%): Is it a "healthy" mix?**

*What Types of Credit Do You Use?*

FICO looks at the diversity of credit you use, whether you use bankcard, travel and entertainment cards, department store cards, personal finance company references, and/or installment loans.

- **Pursuit of new credit (10%): Are you taking on more debt?**

*Inquiries - The number of times you have applied for credit in the recent past.*

## Negative Information:

Negative information in your credit report that could impact the FICO score includes bankruptcies, delinquencies or late payments on accounts, collections, too many credit lines with maximum available funds borrowed, too little credit history (less than five credit lines in the past two years), and too many credit report inquiries.

## Information FICO Does Not Consider:

FICO does not consider your race, color, religion, national origin, sex, sexual orientation, marital status or age.

## The Reason Codes

When a lender receives your credit score, it includes "score reason codes" to explain the top reasons your score was not higher. These codes can give you an idea of how you should start improving your score, such as closing unused credit accounts or being more diligent about making payments on time.

Lenders are not required to tell you your credit score, but if your score is low and you are turned down for a loan, the lender must give you the reasons for your low score. Your score is accompanied by a maximum of four "**Reason Codes**" that explain why your score wasn't higher, listed in order of impact on the score. **These codes are essential in helping you improve your score later in time.**

FICO reason codes show how many aspects of your credit report are used in a FICO score. Your four reason codes would be from this list:

- Amount owed on accounts is too high;
- Delinquency on accounts;
- Too few bank revolving accounts;
- Too many bank or national revolving accounts;
- Too many accounts with balances;
- Consumer finance accounts;
- Account payment history is too new to rate;
- Too many inquiries in last 12 months;
- Too many accounts opened in last 12 months;
- Proportion of balances to credit limits is too high;
- Amount owed on revolving accounts is too high;
- Length of revolving credit history is too short;
- Time since delinquent is too recent or unknown;
- Length of credit history is too short;
- Lack of recent bank revolving account information;
- No recent non-mortgage balance information;
- Number of accounts with delinquency;
- Too few accounts currently paid as agreed;
- Time since derogatory public record or collection;
- Amount past due on accounts;
- Serious delinquency, derogatory public record or collection;
- Too many bank or national revolving accounts with balances;
- No recent revolving balances;
- Proportion of loan balances to loan amounts is too high;
- Lack of recent installment loan information;
- Date of last inquiry too recent;
- Time since last account opening is too short;
- Number of revolving accounts;
- Number of bank revolving or revolving accounts;
- Number of established accounts;
- No recent bankcard balances;
- Too few accounts with recent payment information.

## What Is a GOOD Credit Score?

What actual number is a good score depends on the scoring model, the type of loan, and the lender's acceptable risk level and credit policies. For some models like FICO, the higher the score, the better. For other models, the lower the score, the better. If the score on a borrower's credit report is too low for one product, it may be acceptable for other products. Likewise, if one lender turns down a request for credit, it does not mean that another one will. For instance, an automobile dealer may accept a lower score than a creditor who offers an unsecured line of credit.

Although each lender has different standard, the following is a general guideline based on your FICO score.

FICO Score	Credit Rating
Above 730	Excellent Credit
700 - 729	Good Credit
670 - 699	Lender will take a closer look at your credit file
585 - 669	Higher risk
Below 585	Limited credit availability

Many lenders reserve their most favorable quotes of rates and fees for applicants in the upper FICO score ranges -- 700 and above. Mortgage applicants in the low 600s and below get progressively higher rate quotes and are charged higher loan fees. FICO scores, in other words, often determine what you pay for the money you borrow.

If you're interested in current average interest rates, visit [myFICO.com](http://myFICO.com).

## Why Should you get your credit score?

When you order your own personal credit report, you can see the same credit history a lender sees, but a score can tell you more. It tells you how the lender is likely to evaluate your history.

If you want to get an idea of your total credit picture, having your credit score as well as your credit report can help you in several ways:

- Know where you stand before applying for credit  
Prevent surprises when applying for credit by knowing where you stand
- Understand your total credit picture  
This is important because lenders often review both your credit report and a credit score when considering an application.

## Check Your FICO Score

For years now, customers have been barred from ever seeing their FICO scores and the method whereby their FICO scores were obtained. But after many years of pressure by consumers and legislators, now you will not only be able to obtain your FICO score from your loan officer, but you will also be able to go on-line and find out the specific factors that are affecting your score. Order your FICO Score by clicking [HERE](#).

## Reminder

Remember that the lender, not a credit score, makes the final decision to approve a mortgage loan application. A credit score is simply a tool used by the lender. The lender may take into consideration any special reasons for your past credit problems. In addition, the lender will look at more than just your credit score such as your equity investment in the home, job history, income, savings, and the type of mortgage loan you want -- before making a final decision.