Understanding Credit Scores

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.

What is a Credit Score?

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 range between 300 and 850, although other bureau ranges may be higher or lower.

How Does Your Score Affect Your Buying Power?

Most lenders will look at your FICO® Scores when evaluating your credit report or loan applications. Here’s how your scores could affect your interest rate. Example shows an illustration for a 30-year fixed rate mortgage.

<table>
<thead>
<tr>
<th>FICO Score</th>
<th>Interest Rate</th>
<th>Monthly Payment</th>
<th>Total Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>760 - 850</td>
<td>3.85%</td>
<td>$1,407</td>
<td>$206,498</td>
</tr>
<tr>
<td>700 - 759</td>
<td>4.08%</td>
<td>$1,445</td>
<td>$220,352</td>
</tr>
<tr>
<td>680 - 699</td>
<td>4.25%</td>
<td>$1,477</td>
<td>$231,611</td>
</tr>
<tr>
<td>660 - 679</td>
<td>4.47%</td>
<td>$1,515</td>
<td>$245,297</td>
</tr>
<tr>
<td>640 - 659</td>
<td>4.90%</td>
<td>$1,593</td>
<td>$273,316</td>
</tr>
<tr>
<td>620 - 639</td>
<td>5.45%</td>
<td>$1,694</td>
<td>$309,964</td>
</tr>
</tbody>
</table>

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

$300,000 mortgage loan amount: based in California
- 5.45% would be a $1,694 payment (620-639 score)
- 4.25% would be a $1,477 payment (680-699 score)
- $217 per month savings
- $78,353 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 rate and erode your buying power.

**Source: www.myfico.com. This is not a guarantee of rates, or terms. Example for illustrative purposes.**

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 “cutoff score” used by all lenders and there are many additional factors that lenders use to determine your actual interest rates. Credit bureau scores are not the only scores used. Many lenders use their own scores, which often will include the FICO® Score as well as 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. If your scores from the credit reporting agencies are different it’s probably because the information those agencies have on you differs. 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 credit-reporting agency today.

You may monitor your own credit reports; call (877) 322-8228 to get your free annual credit report (one report per bureau, per year), or go to www.annualcreditreport.com, but be aware that if you purchase your credit score there it won’t be a genuine FICO® Score. 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 (888) SOPTOUT or visit www.optoutprescreen.com. To avoid unwelcome phone solicitations you may call (888) 382-1222 to register on the Do Not Call Registry.

Counseling available by phone, internet, or in person
(800) 449-9818

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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 you 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, but it takes time for the effects—both good and bad—to be seen and felt.

1. There are no quick fixes; it takes time for the effects—both good and bad—to be seen and felt. Review credit reports regularly.
2. Pay your bills on time. If you’ve missed payments, get current and stay current. Tip: The weighting of late payments of the 30, 60, and 90 - day type are strongly influenced by the item’s severity, frequency and how recent. As derogatory information “seasons out” (i.e. 2 years) and you begin to utilize “revolving” credit responsibly you can improve a negative score.
3. Keep balances below 25% of 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. (Mortgage / auto inquiries within 14 – 45 day window are “clustered” to 1 inquiry). For FICO scores calculated from older versions of the scoring formula, this shopping period is any 14 day span. For FICO scores calculated from the newest versions of the scoring formula, this shopping period is any 45 day span. Ask your lender which version they use to calculate your FICO score.
6. Revolving, installment, mortgage – don’t concentrate all credit to one type.
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, judgments, bankruptcy) and collection items are regarded by the FICO model as very serious (compared to 30, 60, or 90 days late).
11. If you are having trouble making ends meet, contact your creditors or see a legitimate credit counselor.