

Credit Scores



"If winning isn't everything, why do they keep score?" – Vince Lombardi

■ Range is 300-850:

- 850 - 780 - Low Risk
- 780 - 740 - Medium - Low Risk
- 740 - 690 - Medium Risk
- 690 - 620 - Medium - High Risk
- Below 620 - High Risk (sub-prime)

These are general guidelines since there's no one "score cutoff" used by all lenders. Be aware that in the last year most lenders have RAISED their minimum score. Also know that your score can change from month to month and can be different at each of the credit bureaus.



How do poor credit scores hurt?

Typical rates for a 4-year loan on a \$15,000 vehicle:

FICO score	APR	Monthly payment
850-720	4.601%	\$343
719-690	6.236%	\$354
689-660	7.859%	\$365
659-620	10.761%	\$386
619-590	18.870%	\$447
589-500	20.434%	\$460
499 and below	People with these scores aren't usually accepted for a loan through a financial institution.	

Compare highest score

FICO score 850-720 = 4.601%
\$343/month X 12 months = \$4,116
\$4,116 X 4 years = **\$16,464 total paid**

&

lowest score:

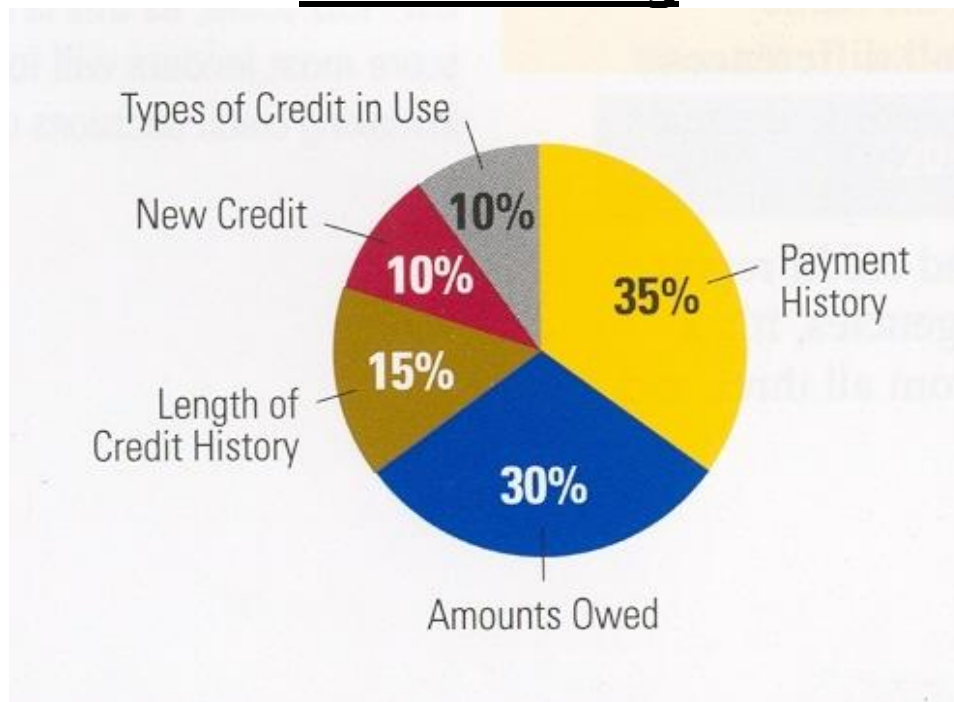
FICO score 589-500 = 20.434%
\$460/month X 12 months = \$5,520
\$5,520 X 4 years = **\$22,080 total paid**

Difference = \$5,616

Person with a high score saves \$5,616 in interest payments alone.

(Plus a higher credit score can save you thousands of dollars on interest in home loans, credit cards, insurance rates, & more)

Credit Scoring



Source: Fair Isaac Corporation, www.myfico.com, retrieved 2006

Factors used to make up the credit score:

(The introduction of FICO®2008 may slightly change the following factors)

- 1) **35% - Payment History:** This is the single most important factor in a credit score. The longer you have paid your bills on time, the better your score. Payment history includes:
 - Payment information on each type of account (mortgages, installment loans, credit cards, etc.). Active positive information can remain on your credit report indefinitely, while a closed account with positive information may remain on your report for 10 years from the date of closing.
 - Late loan/credit payments and collection accounts remain on report for 7 years from the initial late payment – Score reflects when late payment occurred, how many payments were late, and length of time of delinquency.
 - Public Records on your credit report:
 - Foreclosures, liens, lawsuits, garnishments, paid judgments – 7 years
 - Bankruptcies - 7-10 years on report
 - Unpaid child support - 20 years after the youngest child reaches age 18
 - Unpaid judgments – 20 years on report
 - Student loans and certain taxes - unpaid can stay forever on report

↑ Score:

- Pay all bills on time
 - Pay attention to due dates and due times
 - A recent 30 days late payment can lower your score more than a paid judgment from 6 years ago
- If you carry a credit card balance, pay more than the minimum every month. Paying only the minimum can lower your score.
- Schedule automatic monthly payments if that helps you pay on time.

2) **30% - Amounts Owed:** This is the second most important factor of your credit score:

- This is how much you've borrowed compared to the total amount of credit available to you. **The more of your available balances you have borrowed, the lower the score.**
- Balances on accounts: Even if you pay off your credit card monthly, your balance is reported to the credit bureau based on the date/time the record is pulled. The creditor may not know if you pay off the balance.
- The number of accounts that have balances.
- The amounts owed on the different types of accounts are scored differently. As an example, a mortgage loan would be scored differently than a credit card or a "big box" store loan.
- Installment loan balances are compared to the original loan amounts. As the loan balance goes down, it shows you're able and willing to manage and repay debt.

↑ **Score:**

- Pay off your credit card balances in full every month.
- Don't use more than half of your available credit limit on credit cards and other revolving loans – even if you pay it off every month.
- Pay attention to credit card limits – card companies can lower your credit limit triggering over the limit fees.
- Pay off debt instead of moving it around to different credit cards or lenders.

3) **15% - Length of Credit History:** In general, the longer your credit history, the better your credit score. Length of credit history factors include:

- How long credit accounts have been established. In order to have a credit score, your credit report must list at least one account that has been open for six months or more.
- The age of the oldest account, the age of your newest account, and the average age of all your accounts combined.
- How long it has been since you used your credit accounts.

↑ **Score:**

- If you're young or don't have a very long credit history, don't open a lot of new accounts too quickly. That can lower your average account age and your credit score.
- If you pay off a credit card, don't close the account if it is an account you have had for a while. If you only recently opened it, closing the account may not have much effect.
- Ask a family member with good credit if you could be an authorized user on their credit card – that's if their creditor reports authorized user data to the credit bureaus. You could also ask to be added as a joint account holder. Note there are risks with attaching your credit report to another person.
- Secured credit cards can help build up a credit history but **only** if the creditor reports to a Credit Reporting Bureau.
- The better your financial track record, the better you can weather the occasional late payment without greatly impacting your score.

The First 3 Factors = 80% of your Credit Score

4) **10% - New Credit:** Red flags go up when several accounts are opened in a short period of time. New credit factors include:

- Multiple credit requests/inquiries. However, credit inquiries that were made on your credit within the prior 30 days don't count towards your score. Also, inquiries older than 30 days that occur within a "typical shopping period" for the same type of transaction (home loans, car loans) will only count as one inquiry.
- How long it has been since a new account was opened and the type of account that was opened.
- Hard inquiries: Length of time since lenders made credit report inquiries.

↑ Score:

- Shop for a home or car loan within a 30-day period.
- Think twice about store offers to open a new credit card to receive an instant discount on your purchase. The new account could lower your credit score and cost you more in interest and insurance rates than you will have saved with a 10% discount on your purchase. Plus you should take time to review the details of the offer—hard to do in the checkout line.
- When you apply for new credit, a "hard inquiry" shows up on your credit report and can affect your credit score for 12 months. Too many hard inquiries can send the message to creditors that you are desperate for new credit. ("Soft inquiries" don't affect your score so don't worry about ordering your free annual credit reports or a free report if you've been turned down for credit.)

5) **10% - Types of Credit Used:** The types of credit includes the following factors:

- The mix of accounts including mortgage loans, credit cards, installment loans, finance company accounts, etc.
- This is usually not a major factor in the credit score unless the credit report does not have a lot of other information to base the score.

↑ Score:

- It's good to have at least one major credit card in addition to retail store credit cards.
- Don't open new accounts just to have a better credit mix. That could lower your score more in the short term.
- "Payday" and title loans may not report to Credit Reporting Bureaus unless you miss a payment. Even if the lenders do report regular payments to the Bureaus – be careful using these higher cost forms of debt since other lenders may view them negatively.

How do these factors affect my credit score?

That depends. These five factors have different effects on lower credit scores than they do on higher ones. Plus there are several different credit score models being used by the three credit reporting bureaus and Fair Isaac Corporation (FICO) that may weigh these various credit events differently.

Credit Karma Credit Simulator Score Chart						
Credit Event	Jane	Change	Points	John	Change	Points
Add a New Credit Card with a Credit Limit of \$15,000	793	791	-2	576	557	-19
Increase Credit Limit of Credit Cards by \$10,000	793	793	0	576	612	+36
Closing Oldest Account	793	793	0	576	558	-18
Increase Credit Card Debt by \$10,000	793	769	-24	576	556	-20
Paying Off All Credit Card Debt	793	793	0	576	615	+39
Allow 1 Monthly Account to Become 30 Days Past Due	793	759	-34	576	558	-18
Have On Time Credit History for 24 Months	793	793	0	576	595	+19

Source: CreditKarma.com Credit Simulator, Retrieved June 2009

- For your **free annual credit report**: www.annualcreditreport.com
- To **purchase** your credit score: www.myfico.com
- To **estimate** your FICO score: www.bankrate.com – under calculators
- For a **free credit score** service: www.creditkarma.com
www.quizzle.com

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Sources: *Credit Scores & Credit Reports: How the System Really Works, What You Can Do*, Evan Hendricks. Privacy Times, 2005.

Understanding Your FICO® Score, www.myfico.com/crediteducation, May 2009.

Your Credit Score: How to Fix, Improve, and Protect the 3-Digit Number that Shapes Your Financial Future, Liz Pulliam Weston. Prentice Hall, 2004.