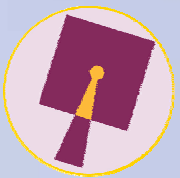




# Credit Counts . . . Know the Score!

***Understanding the  
Importance of  
Credit Scoring***

**Do you know the score?**



# QUESTION

**What can a lender learn from your credit score?**

- A. Amount of your total debt**
- B. Probability that you'll repay a future loan on time**
- C. Your debt-to-income ratio**
- D. Number of loans you have borrowed**
- E. All the above**



# What's a credit score?

- Numerical forecast of the likelihood you'll successfully repay a future loan
- Based on information in your credit report
- Automated credit evaluation tool
- Comparable to your ***“credit GPA”***
- First developed by Fair Isaac & Co.

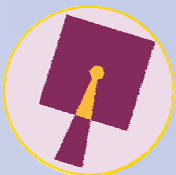


# True or False?

Your credit score changes daily.

**FALSE**

- Your credit score can change only when your credit report changes
- Your score is calculated only when requested



# What is a credit report?

- Record of your credit accounts and how well you've performed in repaying those accounts
- Derived from data in your credit history maintained by authorized credit reporting agencies
- Provides a measure of your ***“willingness to pay”*** a loan or other financial obligation
- Comparable to your ***“credit transcript”***



## True or False?

You have only *one* credit score at any point in time.

**FALSE**



# There is no single score . . .

- **Credit bureau scores are not the only scores used**
- **Fair Isaac & Co. is not the only company providing scores**
- **Your score may be different at each credit bureau**
- **Your score changes over time**





# FICO® Credit Scores

- Calculated using Fair Isaac & Co. methodology
- FICO® scoring method is a “black box”
- FICO® scores range from 300 to 850
- You want the *highest* FICO® score possible



# Minimum Scoring Requirements

## Must have at least:

- one account open minimum of 6 months
- one account, not currently in dispute, updated within past 6 months



# Who uses your score?

**Anyone with legal authority according to the Fair Credit Reporting Act (FCRA), e.g.:**

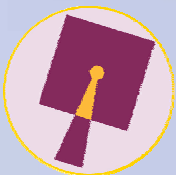
- **Current and potential lenders**
- **Prospective employers**
- **Prospective landlords**
- **Insurance companies where you're trying to get coverage**



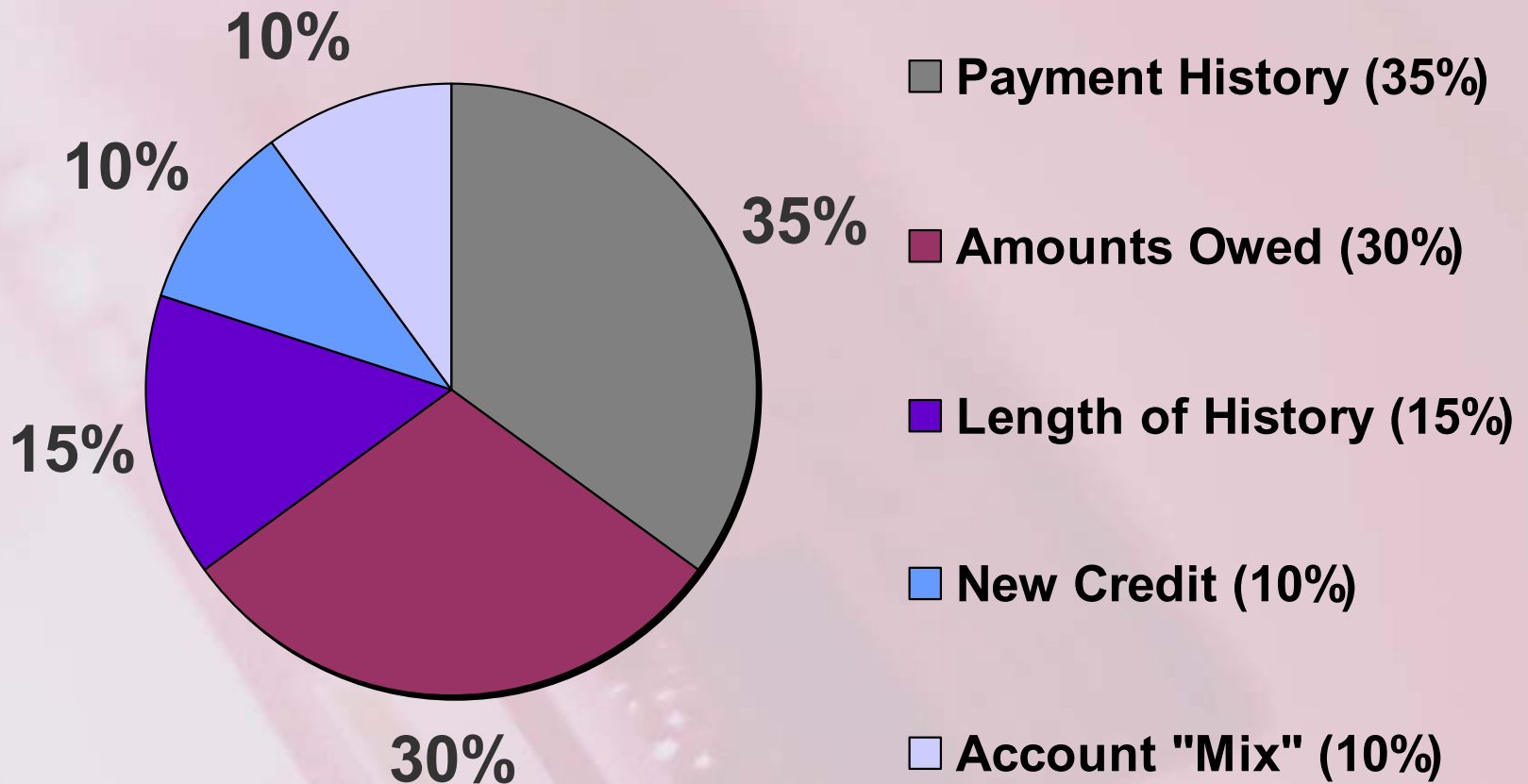
## True or False?

All information in your credit report has equal weight in credit scoring.

**FALSE**



# What factors affect your score?

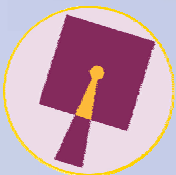


# True or False?

**Education loan debt does not necessarily result in a low credit score.**

**TRUE**

- **Education loans are installment debt and they typically are viewed more favorably than revolving debt in credit scoring**
- **How well you have managed credit in the past is more important than your amount of debt**



# These Factors DO Count!

- **High revolving account balances WILL impact score even if no history of late payments**
- **Paid collection accounts DO impact score until removed from report**
- **Use of credit counseling services, if reported by creditor, MAY lower score**
- **Inquiries for more credit MAY lower score**



# QUESTION

Which of the following is the **MOST** important factor in determining your credit score?

- A. Available credit
- B. Payment history
- C. Total debt
- D. No one factor is always the most important; it's the mix of all information that counts
- E. None of the above





# What a Credit Score Ignores

- **Age, race, color, religion, national origin and marital status**
- **Salary, occupation, title, employer, date employed, employment history**
- **Where you live**
- **Interest rates being charged on current accounts**
- **Information reported regarding child or family support or rental agreements**



# QUESTION

How long can inquiries by a lender impact your credit score?

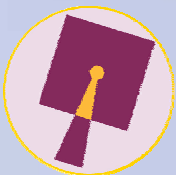
A. 6 months

B. 1 year

C. 2 years

D. 7 years

E. Indefinitely



# Inquiries that do NOT affect your credit score . . .

- **Self inquiries**
- **Promotional inquiries**
- **Administrative inquiries**
- **Inquiries from prospective employers**
- **When applying for auto/mortgage loans:**
  - **Auto/mortgage loan related inquiries in past 30 days**  
*[Auto/mortgage loan related inquiries within a 14-day period are treated as single inquiry]*



# Scoring Myths (#1)

## MYTH

- **Your score determines if you'll get approved for credit**

## REALITY

- **Your score is just one of the factors used in credit decisions**



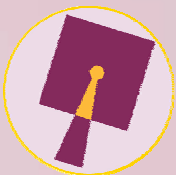
# Scoring Myths (#2)

## MYTH

- **A low (poor) score will haunt you forever**

## REALITY

- **Wrong--Your score is a snapshot of your credit in time and it changes as new information is added**



# Other Common Misconceptions

- **Balance transfers don't hurt score**
- **Credit history contains only current account status**
- **Delinquent accounts now made current have no negative impact on score**
- **Bankruptcy "clears" both debt and credit record**
- **Divorce decrees regarding joint accounts must be honored by creditors**
- **Student loans not in repayment are not counted as debt**



# Obtaining Your Credit Score

- **Can be obtained online from:**
  - **Fair Isaac and Company**  
*myfico.com*
  - **National Credit Bureaus**  
*equifax.com*  
*experian.com*  
*transunion.com*
- **Fee is charged**



# What do you get with your score?

- **Credit score report typically includes:**
  - Your score
  - Analysis and explanation of your score
  - Placement relative to all other people with scores
  - Most important positive and negative factors affecting your score
- **Also may include**
  - Copy of credit report used to generate score
  - “Score Simulator”





## True or False?

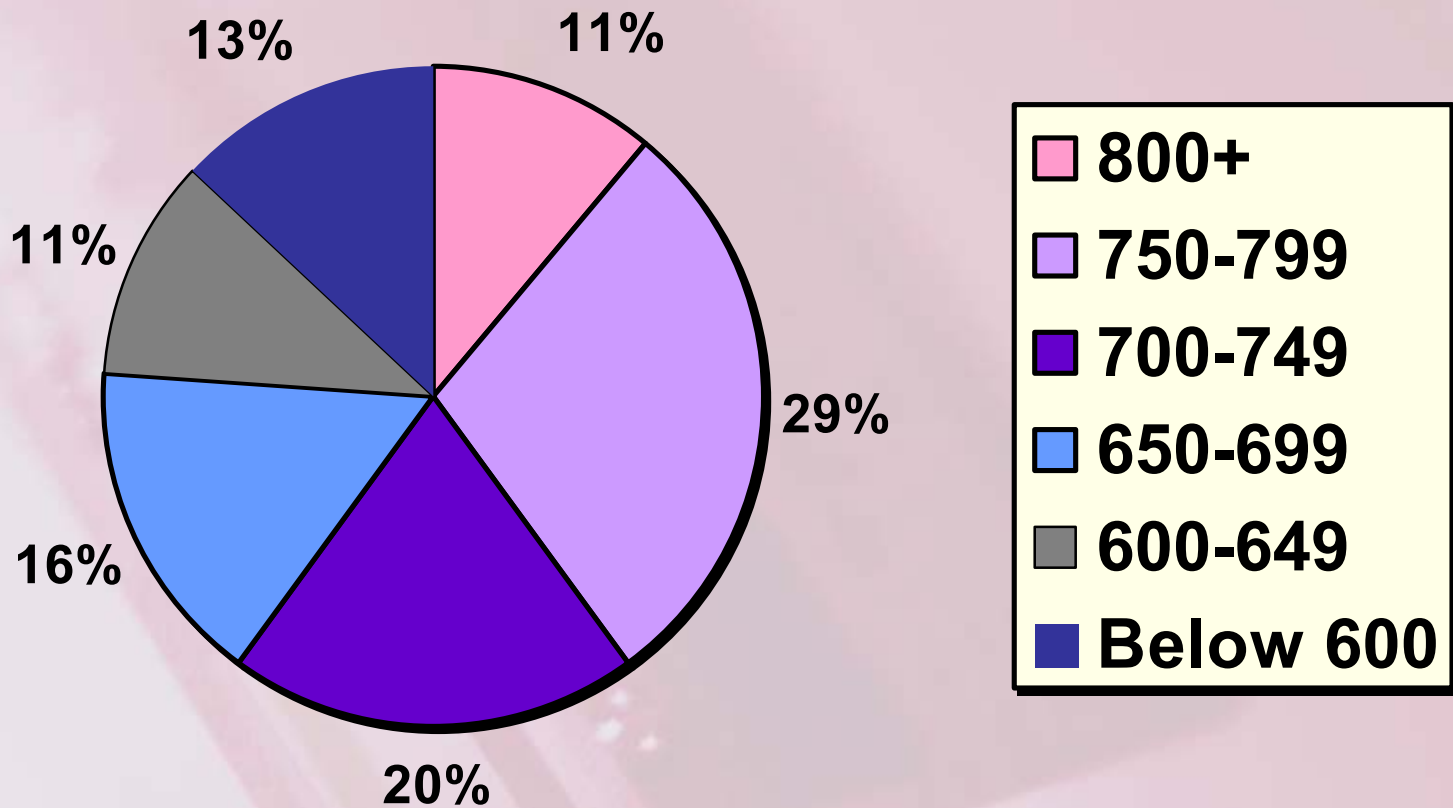
Most people have a FICO® credit score between 650 and 700.

**FALSE**



# How do people score?

Based on general population's FICO® scores:



# QUESTION

What is the **MOST** common reason why a credit score is not higher?

- A. **Bankruptcy**
- B. **Collection account(s)**
- C. **Amount owed on accounts too high**
- D. **Too many accounts with balances**
- E. **Serious delinquency**



# Top 5 Reasons That Lower Credit Scores

1. **Serious delinquency**
2. **Serious delinquency, AND public record or collection filed**
3. **Derogatory public record or collection filed**
4. **Time since delinquency is too recent or unknown**
5. **Level of delinquency on accounts**



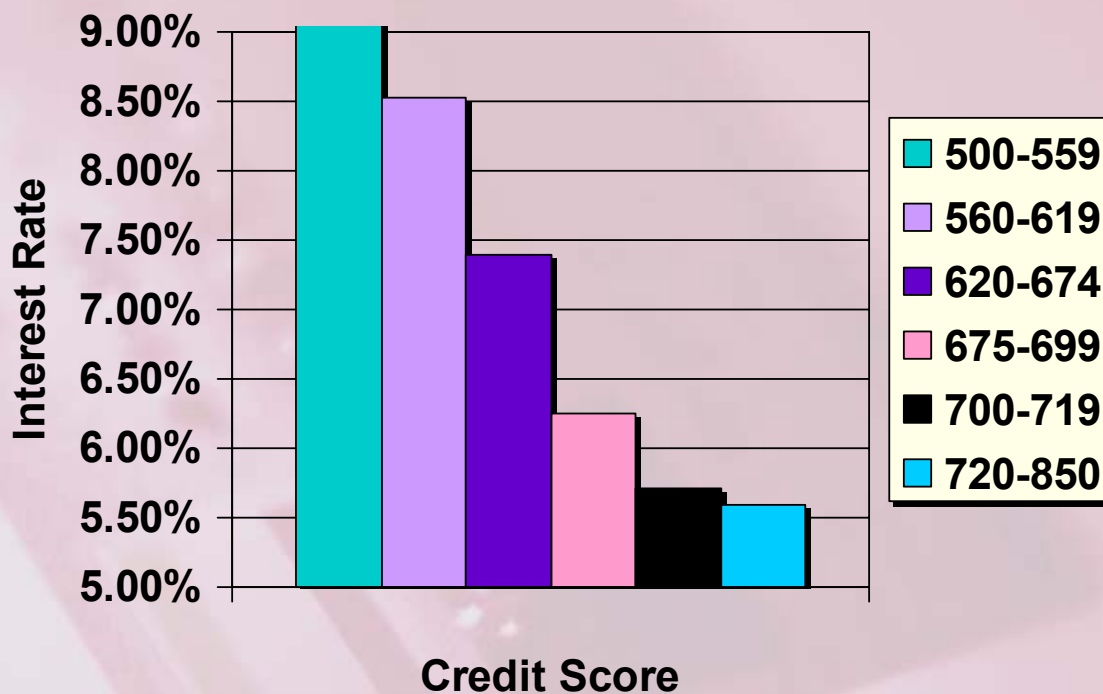
# **MORE Reasons That Lower Credit Scores**

- 6. Number of delinquent accounts**
- 7. Amount owed on accounts**
- 8. Proportion of balances to credit limits on revolving accounts is too high**
- 9. Length of time accounts have been established**
- 10. Too many accounts with balances**

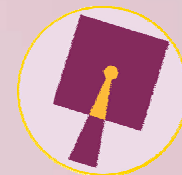


# What rate might you get?

The following APRs illustrate what rate you might be offered for a **30-year fixed rate mortgage** based on your credit score.



Reported at [myFICO.com](http://myFICO.com) as of 1/15/04



# Credit Scoring Can Help You

- Credit decisions can be made faster
- Credit decisions are fairer, more objective
- Past credit problems may count for less, *unlike “knock-out” credit rules*
- More credit is available
- Cost of credit should be lower overall



# QUESTION

Which of the following is NOT generally a method for improving your credit score over time?

- A. Paying your bills on time
- B. Minimizing what you owe on revolving accounts
- C. Opening new accounts only when needed
- D. Obtaining both installment and revolving accounts
- E. Using caution when considering balance transfers





# In summary . . .

## To maximize your score:

- Don't procrastinate – pay all your bills on time.
- Avoid owing more than 30% of your available revolving credit.
- “Less is more” – *keep your revolving debt as low as possible.*
- “Older is better” – *older accounts score more favorably.*
- Minimize the opening of new revolving accounts.

