ALL ABOUT CREDIT

What is FICO?
- Fair Isaac Corp., a California-based company, developed the first credit score.
- They have gradually refined this formula and it is now called the FICO score.

Here's an example of the things that go into FICO:
- Payment History
- Capacity
- Length of Credit
- Recent Credit
- Mix of Credit

Payment History
Capacity is King!!!

How important is Capacity?

<table>
<thead>
<tr>
<th>Individual A</th>
<th>Individual B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eight credit cards</td>
<td>Two credit cards</td>
</tr>
<tr>
<td>$40,000 in limits</td>
<td>$10,000 in limits</td>
</tr>
<tr>
<td>$10,000 in balances</td>
<td>$10,000 in balances</td>
</tr>
<tr>
<td>75% available capacity</td>
<td>0% available capacity</td>
</tr>
</tbody>
</table>

In this example, Individual B is no more in debt, yet their credit score will be dramatically lower because they have removed all of their available capacity on their credit cards.

Length of Credit

Recent Credit -- Accumulation of Debt in the last 12-18 months

Mix of Credit
Our Pie is Complete

The scoring model doesn't look at:
- age
- race
- sex
- job or length of employment at your job
- income
- education
- marital status
- whether you've been turned down for credit
- length of time at your current address
- whether you own a home or rent

Discovering your credit score
- Until 2000, credit scores were a big secret. You could get a credit report, but you couldn’t find out your credit score.
- E-Loan started giving these away.
- In response, the credit bureaus cut them off – no more access to credit scores!

Your rights
- To obtain your credit report from each of the three credit bureaus – Experian, Equifax, Transunion – once each 12 months OR within 30 days of being denied credit
- It may cost $ to get your credit score – but you CAN get it!
- It will cost to get your report more frequently.
Why three different bureaus?

- Currently, each of the three major credit bureaus uses their own version of the FICO scoring method -- Equifax has the BEACON score, Experian has the Experian/Fair Isaac Risk Model and TransUnion has the EMPIRICA score.
- The three versions can come up with varying scores because they use different algorithms.
- Variance can also occur because of differences in data contained in different credit reports.

Empirica Score Card Example

Scores

- It is very difficult to score above 700 with a currently delinquent account.
- To score above 730, maintain a high level of capacity on the revolving accounts and have no current no past public records and delinquent accounts.

Why does credit score matter?

- The difference in the interest rates offered to a person with a score of 520 and a person with a 720 score is 4.36 percentage points, according to Fair Isaac’s Web site.
- On a $100,000, 30-year mortgage, that difference would cost more than $110,325 extra in interest charges, according to Bankrate.com’s mortgage calculator.
- The difference in the monthly payment alone would be about $307.

WOW!!!!!!!

“Those who are A-credit versus those who are D-credit throughout their work-life span will pay approximately $250,000 less in interest”

Paul Strassels, author or “Credit When Credit is Due” www.creditwhencreditisdue.com

Free Estimator:


Bad Credit

- The following is a list of most of the negative items that could appear on your credit report. They are listed in order of what many creditors would consider as best to worst.
- Credit inquiries
- Credit rejections
- Late payments
- Past due and unpaid payments
- Court judgments
- Collections
- Loan defaults
- Repossession
- Foreclosure
- Bankruptcy

How long do things stay on your record?
• 7 years.

**What to do for a bad score**
• Make sure your credit report is correct. Fix any mistakes.
• Stop acquiring debt!
• Pay your debts.
• Re-establish credit.

**Will my FICO score drop if I apply for new credit?**
• If you apply for several credit cards within a short period of time, multiple inquiries will appear on your report.
• Most credit scores are not affected by multiple inquiries from auto, mortgage or student loan lenders within a short period of time.
• Typically, these are treated as a single inquiry and will have little impact on the credit score.