


1  **ALL ABOUT CREDIT**2  **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.

3  **Here's an example of the things that go into FICO:**

- Payment History
- Capacity
- Length of Credit
- Recent Credit
- Mix of Credit

4  **Payment History**5  **Capacity is King!!!**6  **How important is Capacity?**

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<u>Individual A</u>	<u>Individual B</u>
Eight credit cards	Two credit cards
\$40,000 in limits	\$10,000 in limits
\$10,000 in balances	\$10,000 in balances
75% available capacity	0% available capacity

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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.

7  **Length of Credit**8  **Recent Credit -- Accumulation of Debt in the last 12-18 months**9  **Mix of Credit****Our Pie is Complete**10  **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

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11  **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!

12  **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.

13  **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.

14  **Empirica Score Card Example**15  **Score Card Example (cont.)**16  **Score Card Example (cont.)**17  **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.

18  **Scores**

- It almost always takes little or no capacity and current delinquencies to score less than 500.
- Scores in the 600's usually can be described in one of two ways:
 - Paying well (on time), but have only avg capacity, or
 - Paying OK (occasional sloppiness), but have good capacity.

19  **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.

20  **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

21  **Free Estimator:**

- <http://www.bankrate.com/calculators/credit-score-fico-calculator.aspx>

22  **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

23  **How long do things stay on your record?**

- 7 years.

24  **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.
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25  **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.