

## Credit Scores Explained

### What is a credit score and what is it designed to do?

"The FICO score is the single best summary score of one's credit worthiness," says E-Loan President and Chief Operating Officer Joe Kennedy.

A credit score number is often called a FICO score, for Fair, Isaac and Co., the California company that developed the system upon which it is based.

The score is supposed to distill all the information in your credit report, using a formula to calculate a single number that indicates your credit worthiness.

It's designed to give lenders a fast, accurate prediction of the risk involved in giving you a loan. Lenders have attested to the score's value in streamlining the underwriting process and creating more opportunities for consumers to get mortgages.

Scores range from the 300s to about 900, with the vast majority of folks falling in the 600s and 700s. The higher the score is the better.

### What factors determine my credit score?

When determining how high a score will be, five characteristics separate the cream of the crop from everyone else. In order of score significance:

**Past delinquency:** People who have failed to make payments in the past tend to do the same in the future.

**The way credit has been used:** Someone who is maxed out or close to the limit on a credit card is considered a greater risk than someone who doesn't look at the high credit line as a license to print money.

**The age of the credit file:** Fair, Isaac's model assumes people who have had credit for a long time are less risky.

**The number of times a person asks for credit:** The system frowns upon those who have initiated several requests for credit cards, loans or other debt instruments over a short period.

**A customer's mix of credit:** Someone with only a secured credit card is generally riskier than someone who has a combination of installment and revolving loans. (On installment loans, a person borrows money once and makes fixed payments until the balance is gone, while revolving borrowers make regular payments, each of which frees up more money to access.)

### How is credit worthiness gauged using the credit score?

It depends on the type of loan a consumer is seeking. For example, a mortgage broker will give more weight to different credit factors than a credit card issuer.

**Mortgages:** By Freddie Mac standards, borrowers with FICO scores above 660 are likely to have an "acceptable" credit reputation and their loan files need only a basic review. The credit risk is "uncertain" for those with scores between 620 and 660, with a thorough review of the borrower's entire credit history. A score below 620 indicates "high risk" with an unacceptable credit reputation that could make traditional financing difficult to obtain.

"Most very good FICO scores come in the mid-700s," explains Michael Feldman, a co-founder of MortgageIT.com. "You'll see standard pricing, assuming a FICO score above 680. A score above 720, the pricing gets better. If you get above 750 -- with some lenders in some cases -- you'd see another improvement in the points. On the average \$200,000 (home purchase), it can mean up to \$1,000 to a consumer. It's real money."

**Credit cards:** Credit card lenders place additional weight on credit card-related information, such as how many times a person missed revolving credit payments. And the systems evaluate a college student targeted for a starter card differently than a platinum-toting stockbroker with a summer home in the Hamptons.

**Auto lenders:** Auto scores, on the other hand, focus on "deal characteristics" in much the same way the mortgage scores do, David Shellenberger, product manager at Fair, Isaac and Co., says. They take into account things such as the amount a customer puts down, for example, as well as a borrower's debt-to-income ratio, length of time at one job and the like. As with credit card lending, information about past performance on similar types of loans is weighted, so a missed Nissan payment might be more important than an overdue Visa bill.

### **Why would knowing your credit score help?**

Mortgage experts say you can use it to improve your creditworthiness and negotiate for the best possible terms.

"These are very intimidating transactions," says Eric Cunliffe, former president and CEO of HomeSpace Inc., now a division of Lendingtree.com. "A mortgage is probably the single biggest transaction most people make in their lives. The traditional approach -- 'no one will tell me where I stand' -- only exacerbates the process. If you have very good or excellent credit, you know you should be qualifying for the best rate available."

That won't happen, though, if the first time you look at your score is when you have the contract for your dream house in your hands and the clock to closing is already ticking.

"The problem is that lenders grade mortgages on a FICO score," Michael Feldman, a co-founder of MortgageIT.com, says. "At the point a lender is doing that, you can't change it. If you do it three to six months ahead of time, then you have ample time."

Given the competition in the field, just about any mortgage broker will be happy to run a credit report for you -- even if you're not planning to buy a house for a year -- to get you prequalified.

### **What will it cost to order your credit score?**

Thanks to a [new federal law](#) the three major credit reporting agencies, Equifax, TransUnion and Experian, are each required to provide consumers, upon request, a free copy of their credit report once every 12 months from a centralized source. This centralized source includes a Web site, a toll-free telephone number and a postal address.

The program is rolling out region-by-region. Thirteen western states became eligible to request their free annual credit reports on Dec. 1. Over a nine-month period, the availability will roll out eastward, with the last of the eastern states becoming eligible

on Sept. 1, 2005. To find out when you become eligible to receive a free credit report, check out Bankrate's [map](#).

The reports will not be automatically sent out. Each consumer must request their report one of these three ways. Go to <http://www.annualcreditreport.com/>, which is the only authorized source for consumers to access their annual credit report online for free. Or, call 877-322-8228. Lastly, you may complete the form on the back of the [Annual Credit Report Request](#) brochure, and mail it to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA, 30348-5281. One more caveat: you'll be able to order all three credit reports at one time, or at different times throughout the year. It's your choice. But, be sure to order from the centralized agency. If you go directly to the credit reporting agencies, you will be charged unless you fit another criterion for a free report.

If you want to purchase your credit report and credit score, shop around first. The prices vary between the three credit bureaus. Here are the costs and contact information for ordering your own.

Credit report and credit score -- a price comparison			
Company	Credit report	Credit report with credit score	Reports from all three credit bureaus with score
<a href="#">Equifax</a> P.O. Box 740241 Atlanta, GA 30374 1-800-685-1111	\$9 (Maximum. Price varies by state and by credit circumstances.)	\$14.95	\$39.95
<a href="#">TransUnion</a> P.O. Box 1000 Chester, PA 19022 1-800-888-4213	\$9.95 (Maximum. Price varies by state and by credit circumstances.)	\$14.95	\$29.95
<a href="#">Experian</a> PO Box 2104 Allen, TX 75013 1-888-397-3742	\$9 (Maximum. Price varies by state and by credit circumstances.)	\$14.00	\$34.95
If you've recently been turned down for credit, you may be entitled to a free report. Contact the credit bureaus to find out more. The prices, culled from the Web sites, can change at any time. Visit the Web sites for a more complete description and pricing.			