CC&BC Education Series: Credit Scores

What is a credit score?

A credit score is used to predict how likely an individual is to repay a new loan, based on experience with millions of consumers. There are several different computer models that can calculate a credit score: Fair Isaac Risk Score (FICO), Experian PLUS Score, Trans Union Empirica Score and the Equifax Enhanced Beacon Score

Points

In general, the computer model assigns points to information in a credit report. For example, making payments on time every month is positive for the score. Charging the maximum amount available on a credit card is negative. The computer adds the positive and negative points, and the resulting number is your credit score.

What is a "good" credit score?

That depends on the credit scoring model and the lender. For example, the Experian PLUS score ranges from 330 to 830; the higher the number, the better. In addition, each creditor decides what credit score range it considers to be a good risk and a poor risk. For this reason, the creditor is the best source to explain what your credit score means in relation to the final credit decision.

Why are credit scores used?

Creditors, including mortgage lenders, use credit scoring because it is a fast, objective way to evaluate a credit report. Credit scoring also protects you. This is because your age, health, race, religion, gender, national origin, marital status, income, and employment are not considered in determining your credit score.

How can I improve my credit score?

If a creditor has told you that you have a poor credit score and has turned you down for credit because of your score, there are steps you can take! First, you have the right to request a written explanation from the lender that turned you down. The letter must explain the reasons for the credit denial. Then you can make a plan to begin to address these issues. As you improve your credit over time, your credit score will also improve.

Also, remember that the lender, not the credit score, makes the final decision to approve a mortgage loan application. A credit score is simply a tool used by the lender. The lender may take into consideration any special reasons for your past credit problems. In addition, the lender will look at more that just your credit score - - such as your equity investment in the home, job history, income, savings, and the type of mortgage loan you want - - before making the final decision.

FICO Weight Factors*

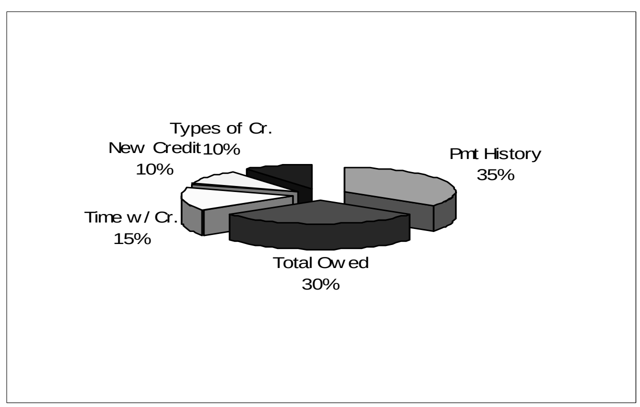
Past payment history – 35% weight

Amount of credit owing – 30% weight

Length of time credit established – 15% weight

Search for and acquisition of new credit – 10% weight

Types of Credit Established—10% weight



*-Weight Factors obtained from Fair Isaac Company's web site.

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