MARVELOUS *Lifestyles*

FICO Scores Decoded…

Discover How to Easily and Quickly Obtain Excellent FICO Credit Scores Regardless of Your Personal Credit Quality Now

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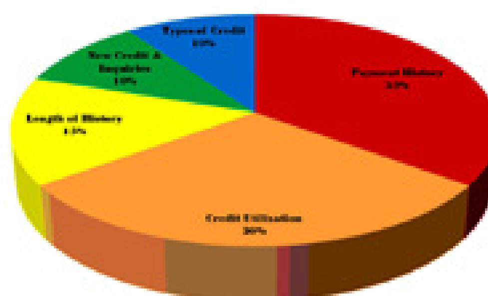
FICO SCORE BREAKDOWN



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FICO's History

FICOis a business analytic software company. They are based in San Jose, California. FICO was founded by Bill Fair and Earl Isaac in 1956. Their FICO score has become the main credit score used to determine consumer credit risk.

FICO was founded in 1956 as Fair, Isaac and Company. William Fair was one of the original founders and was an engineer by trade.

Earl Isaac was another founder and was a mathematician by trade. The two met while working at the Stanford Research Institute in Menlo Park California. In 1958, FICO pitched their first credit risk analysis system to 50 American lenders.

FICO went public in 1986 and is traded on the New Your Stock Exchange under the ticker symbol FICO. The company debuted its first general-purpose FICO score in 1989.

Scores are based on credit reports and range from 300 to 850. Lenders use the scores to gauge a potential borrower's creditworthiness.

Fannie Mae and Freddie Mac first began using FICO scores to help determine which American consumers qualified for mortgages bought and sold by the companies in 1995.

Originally called Fair, Isaac and Company, this name was changed to Fair Isaac Corporation in 2003.

The company rebranded again in 2009, and is now called FICO, making their name the same as the signature FICO score they offer.

Originally it was based in San Rafael California. They moved to Minneapolis Minnesota in 2004. They then moved back to San Jose California in 2013.

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The FICO Score… What You Should Know

The most widely used credit score is the FICO Score.
The FICO score is a mathematical model that is used to depict a consumer's risk of going 90 days late on an account within the next 24 months.
Lenders use the FICO Score to help them make billions of credit decisions every year.

FICO calculates the FICO Score based solely on information in consumer credit reports maintained at the credit reporting agencies. FICO credit scores range from 300 to 850.

That FICO Score is calculated by a mathematical equation that evaluates many types of information from your credit report, at that credit reporting agency.

By comparing this information to the patterns in hundreds of thousands of past credit reports, the FICO Score estimates your level of future credit risk.

You have ***three FICO credit scores,*** one for each of the three credit bureaus: Equifax, TransUnion, and Experian. Each FICO Score is based on information the credit bureau keeps on file about you.

The FICO Score from each credit reporting agency considers only the data in your credit reports at that agency.

Your credit score may be different at each of the main credit reporting agencies. If your current scores from the credit reporting agencies are different, it's probably because the information those agencies have on you differs.

If your information is identical at all three credit reporting agencies, each FICO Score should be very close.

For your FICO Score to be calculated, your credit report with the bureau from which you want your score must contain enough information, and enough recent information, on which to base your credit score.

Generally, that means you must have at least one account that has been open for

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six months or longer, and at least one account that has been reported to the credit reporting agency within the last six months.

Finally!!! The Answer to Why You Have So Many Credit Scores

There are MANY different credit scores out there. There are credit scores consumers can pull themselves through credit monitoring, mortgage scores, auto scores, and many more.

There are actually over 16 different credit "scorecards" that exist today with FICO alone. Each of these scorecards will reflect different credit scores. These scorecards are designed to help particular industries better gauge credit risk.

The mortgage industry for example is more concerned with a consumer's past mortgage history than anything else. So they weight home loan history heavier into the total score calculation than other accounts.

So a consumer's credit monitoring score might be 660, but then when they apply for a mortgage their score might be much lower due to some past negative mortgage accounts on the report. Their mortgage score might even be higher than their consumer score if they have past positive mortgage accounts.

A credit score that a consumer pulls themselves will not be the same as their ***Mortgage Industry Option*** Score, the scores lenders and brokers use to access mortgage default risk.

Their mortgage score won't be the same as their auto score that car dealers pull either which is knows as the Auto Industry Option Score, because the auto score weighs past auto history heavier into the score makeup versus consumer scores.

These different credit scorecards are designed to help specific industries better determine risk. Due to there being so many industries that offer credit, there are also just as many credit scores available.

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Plus, different scores are offered by different companies creating even more credit scores. FICO is the biggest provider of consumer credit scores.

But now even the credit bureaus themselves are in the credit scoring game providing their Vantage score.

The Credit Bureau's Secret Credit Score

Vantage Score is the credit bureaus' own credit score, designed to compete with FICO.

Vantage Score was unveiled by the three bureaus on 14 March 2006. All three main credit reporting agencies use the same formula to calculate the Vantage Score.

Vantage Score has scores as high as 990 while FICO scores can only be as high as 850. So even though a 700 FICO score reflects good consumer credit, a 700 Vantage score reflects below average personal credit.

Here are Vantage Score 2.0 risk levels: "A" credit scores range from 900–990, "B" credit scores range from 800–899, "C" credit scores range from 700–799, "D" credit scores range from 600–699, and "F" credit scores range from 501–599.

Obviously, scores going up to 990 versus FICO scores going up to 850 have created an issue with lenders. This is one of the main reasons that Vantage Score hasn't become widely accepted.

So the bureaus have now changed their score range with Vantage Score 3.0 which was released in 2013. With the new Vantage Score scores only go as high as 850, mimicking the FICO top score.

How Credit Scores Are Calculated - The Inside Scoop

Fair Isaac and Vantage Score hold their credit scoring formulas as a close secret much

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like the formula for Coca-Cola or your grandma's legendary double chocolate-chip cookies.

This can be very frustrating for consumers when they see remarks on the credit report like "too many revolving debt accounts" and not knowing exactly what that means.

Fortunately, Fair Isaac and Vantage Score have issued some public information about how they calculate credit scores.

Payment History: The top rated factor for both models is payment history. This is because lenders want to know a person's payment history - past and present.
This category can be broken down into three subcategories:

Recency – This is the last time a payment was late. The more time that passes the better.

Frequency – One late payment looks a heck of a lot better than a dozen, and *Severity* –A payment 30 days late is not as serious as a payment 60 or 120-days late. Collections, tax liens, foreclosures, repossessions, charge-offs, and bankruptcies are credit score killers.

You can improve this aspect of your score by paying your bills on time. Also, the more accounts you have paid as agreed to offset the ones you don't will also help your score.
So if you do have late payments reporting on your credit, you can offset these by adding new positive accounts and making sure you have a lot of accounts you are paying as agreed to offset the accounts not paid as agreed.

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How much is owed: The score looks at the total amount owed on all accounts as well as how much you owe on different types of accounts (mortgage, auto, etc). Using a higher percentage of the credit limits will worry lenders and hurt the credit score. People who max out their limits have a much greater risk of default.

Utilization: When it comes to revolving debt-credit cards, the formula looks at the difference between the high limit and balances. For example, let's say your customer has a MasterCard with a credit limit of $10,000 and they have spent $2,000 of it.

This is a 20% utilization ratio. The lower the ratio, the higher the credit score. So, if you are looking for a quick credit score boost, pay down any accounts you can.

With FICO, 30% of your credit score is based on utilization, while 35% is based on payment history. Utilization is the 2nd highest weighted aspect of your scores. This means if you are over utilizing your revolving accounts you can damage your scores as much as if you were paying your payments late each month.

Anything over 30% of your limit being used will lower your credit scores. Adding credit cards to your report with high limits can also SIGNIFICANTLY and quickly raise your scores, sometimes as much as 100 points or more.

One more important tidbit, CLOSED ACCOUNTS do not help and can hurt if there is a balance remaining. A long perpetuated myth has been to close accounts that are not in use but this will hurt consumers in several ways.

As you now know, overall and individual account utilization plays a major role in credit scoring. If consumers close old accounts, your overall utilization rate will increase which will cause their score to decrease.

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Length of credit history / Depth of credit: This is less important than the previous factors, but it still matters. It considers (1) the age of the oldest account and (2) the average age of all your accounts.

It is possible to have a good score with a short history, but typically the longer the better. Young people, students, and others can still have high credit scores as long as the other factors are positive. With FICO, this is the 3rd largest aspect of the score calculation.

If a person is new to credit then there is little they can do to improve a credit score. No newly added accounts can be back-dated to improve this score aspect.

You can get added as an authorized user to a family member’s account that has been in long-standing, and that can improve this aspect of your score.

Average age of accounts is another important reason to keep all accounts open. If a consumer has multiple accounts that they’ve had for some time but don’t use, they are still benefiting from the average age of the accounts open in their credit file. Also make sure you use each of your accounts at least once every six months.

Credit issuers must reserve the money offered in credit limits for their clients’ use, so they don’t like having accounts sitting dormant that are not making them money, if an account sits dormant for a long enough time, many creditors nowadays will cancel the account due to inactivity.

Additionally, credit reporting agency will calculate an account as inactive if there has not been any activity in the most recent six month period of time, an inactive account does not benefit your score as much as an active account.

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New Credit / Recent Credit: New credit is not always a bad thing. However, opening new accounts can hurt a credit score, particularly if a consumer applies for lots of credit in a short time and doesn't have a long credit history. The score factors in the following: How many accounts the consumer applied for recently, how many new accounts the consumer has opened, how much time has passed since the consumer applied for credit, and how much time has passed since the consumer opened an account.

The model looks for "rate shopping." Shopping for a mortgage or an auto loan may cause multiple lenders to request your credit report many times each, even though a person is only looking for one loan. Auto dealers are notorious for running 3 to15 credit reports. This is called *shot gunning* the credit.

Luckily, to compensate for this, the score counts multiple auto and mortgage specific inquiries in any 30-day period as just one inquiry. The specific calculation for cut-off dates and types is confusing; we will go over that in detail in upcoming chapters.

For most people, a credit inquiry really won't have an impact on your credit score. Groupings of inquiries WILL adversely affect your scores. However, inquiries can have a greater impact if you have few accounts or a short credit history.

Large numbers of inquiries also mean greater risk. According to MyFico.com, people with six inquiries or more on their credit reports are eight times more likely to declare bankruptcy than people with no inquiries on their reports.

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Types of credit you use / depth of credit: Both models want to see a healthy mix of credit, but they are vague on what this means. They recommend you have a balance of both revolving debts like credit cards and installment loans like auto loans or a mortgage.

The preferred number of credit cards reporting is three.You shouldn't have more than two mortgages reporting. More than two auto loans are too much. Installment loans also score better if you have two or less.

Here again is how your FICO score breaks down:**35%** of your score is based on payment history, **30%** of your score is based on utilization, **15%** of your score is based on length of credit history, **10%** of your score is based on new credit or inquiries, and **10%** of your score is credit mix.

FICO 9… What You Should Know…

FICO's newest credit score is known as FICO 9. This new score includes many changes from prior FICO models.

One change is that medical collections are no longer scored the same as regular collections, they are weighted much less. FICO anticipates that a consumer with the median credit score of 711 whose only negative collection issue is medical-related will see their score increase by 25 points.

Other changes to the model will better gauge the ability of a consumer who has a limited credit history, known in the business as a thin file, to repay a prospective debt. These types of people might not have a score in the past, but will now with the new version.

Non-traditional credit, such as your residential rental history, will be taken into consideration. This means that consumers who have little to no credit history but pay rent on time will get a boost.

Paid-off and settled collections will be ignored with FICO 9. Under the previous FICO model, if you let an account go into collection, your credit score would take a hit for

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as long as that collection is on your credit report (seven years).

Now, as long as the collection has a zero balance, it will be ignored. This is HUGE as paying off collections used to actually prolong how long the account stayed on your reports and resulted in more damage.

5 Quick Tips to Raise Your FICO Score

Check out these tips to raise your FICO credit scores:

Pay your bills on time and beg for forgiveness if you pay late.

Have lots of positive credit on your report, and make sure you are using it at least every six months, don't forget a good credit mix.

Have open credit cards, three preferably, and keep your balances very, very low. Also, get the highest credit limit accounts you can get.

If your credit file is new, get added as an authorized user but only on a FAMILY MEMBER's account.

Do NOT apply for too much credit all at once unless buying a car or home, then you need to do your shopping within a 30-day time period.

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