# Credit Scoring

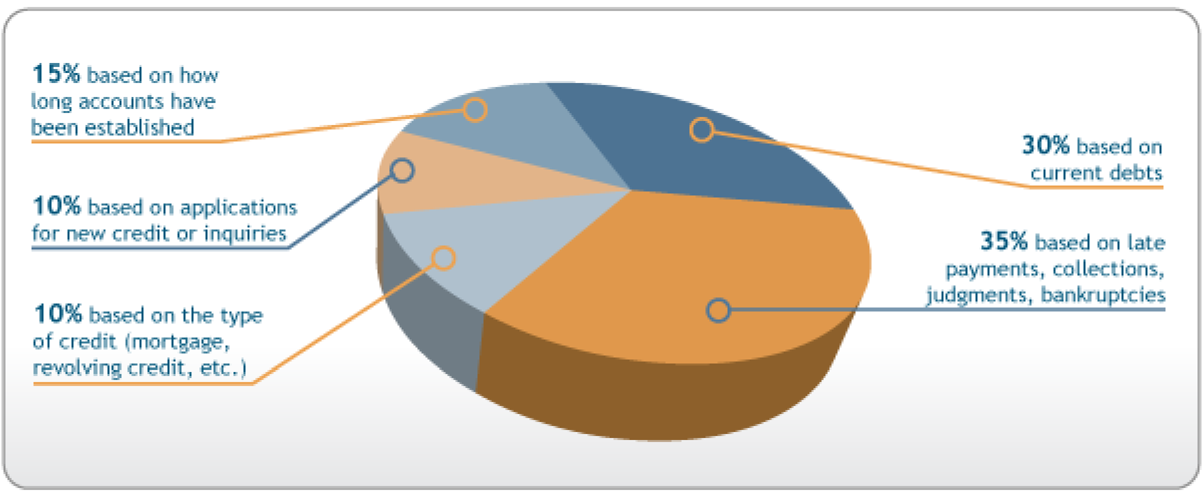
How it Works....What it Means for You

**Credit scoring is a statistical method that lenders use to quickly and objectively assess the credit risk of a loan applicant.**

The score is a number that rates the likelihood you will pay back a loan. Scores range from 350 (high risk) to 950 (low risk). There are a few types of credit scores. The most widely used are FICO scores, which were developed by Fair Isaac & Company, Inc. However, credit scores consider both positive and negative information in your credit report, including: Past delinquencies, derogatory payment behavior, current debt level, length of credit history, types of credit and number of inquiries. They do not consider your income, savings, down payment amount, nor demographic factors such as gender, race, nationality or marital status.

For example late payments will lower your score, but establishing or re-establishing a good track record of making payments on time will raise your score.

## Different Portions of Your Credit File Are Given Different Weights




**Main Factors that Determine Your Credit Score**

By U.S. Law, your credit may not be influenced by race, sex, marital status, or neighborhood.

1. **35%** - Previous credit performance (specific to your payment history)
2. **30%** - Current level of indebtedness (current balance compared to high credit)
3. **15%** - Time credit has been in use (opening date)
4. **10%** - Types of credit available (installment loans, revolving and debit accounts)
5. **10%** - Pursuit of new credit (number of inquiries)

**The most important factor for a good credit score is paying your bills on time.** Even if the debt you owe is a small amount, it is crucial that you make payments on time. In addition, you may want to: keep balances low on credit cards and other "revolving credit;" apply for and open new credit accounts only as needed; and pay off debt rather than moving it around. Also don't close unused cards as a short-term strategy to raise your score. Owing the same amount but having fewer open accounts may lower your score.

**Recent changes minimize the negative effects that rate shopping can have on a mortgage applicant.** If there is a consumer-originated inquiry within the past 365 days from mortgage or auto-related industries, these inquiries are ignored for scoring purposes for the first 30 calendar days. Then, multiple inquiries within the next 14 days are counted as one. Each inquiry will still appear on the credit report.

**Every score is accompanied by a maximum of four reason codes.** Reason codes identify the most significant reason that you did not score higher. They help a lender describe why you received higher than expected rates or loan denial. Scores are not part of the credit profile and are not covered by the Fair Credit Reporting Act.
Your credit report must contain at least one account which has been open for six months or greater, and at least one account that has been updated in the past six months for you to get a credit score.
This ensures that there is enough information in your report to generate an accurate score. If you do not meet the minimum criteria for getting a score, you may need to establish a credit history prior to applying for a mortgage.

## Credit Inquiries

**The Fair Credit Reporting Act (FCRA)** outlines specifically who can see your credit profile. Businesses must have a "legitimate business need," and a "permissible purpose," as stated in the Federal law to obtain your credit file. Otherwise, only you only those you give written permission can access your credit files. Even your family members cannot have access to your credit profile.

**Some examples of those who can access your credit files are:**

- Credit grantors
- Collection agencies
- Insurance companies
- Employers

Any company that has access to or receives a copy of your credit profile will be listed under the **Inquiry section** of your report. Credit grantors post an inquiry before offering you a pre-approved credit card application. These are listed as "promotional" inquiries on your credit file because only your name and address were accessed, not your credit history information. They are NOT sent to credit grantors or businesses for reasons of credit reporting. They are listed for your informational purposes only

FCRA is the Federal law regulating credit reporting companies like **Equifax, Experian, and TransUnion**. It has been in effect since 1971 and undergoes periodic revisions by the Federal Trade Commission. This law protects consumers' rights such as the right to review and contest information in their credit profiles. It also specifically defines who can access the information in a credit profile, and how you are notified of this activity.

## Fixing Credit Report Errors

**You have the right, under FRCA, to dispute the completeness and accuracy of information in your credit file**. When a credit reporting agency receives a dispute, it must reinvestigate and record the current status of the disputed items within a "reasonable period of time" unless it believes the dispute is "frivolous or irrelevant."

**If the credit reporting agency cannot verify a disputed item, it must delete it. If your report contains erroneous information, it must correct it. If an item is incomplete, it must complete it.**
For example, if your file shows that you were late in making payments on accounts, but fails to show that you are no longer delinquent, the credit reporting agency must show that your payments are now current. If your file shows an account that belongs to another person, the credit reporting agency would have to delete it.
Also, at your request, the credit reporting agency must send a notice of correction to any report recipient who has checked your file in the past six months.

For items in your credit profile which you feel deserve further explanation (such as an account that was paid late due to the loss of job, military call-up, or unexpected medical bills), you can send a brief statement to the appropriate credit reporting agency. This information will be placed in your credit profile and will be disclosed each time it is accessed.
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