FICO™

# Understanding Your FICO® Score

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704

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FICO® SCORE

The score lenders use.™

610

727

669

786

830

598

# Table of Contents

*Introduction to Credit Scoring* 1
What's in Your Credit Report 1
Checking Your Credit Report for Errors 3
*FICO® Score Basics* 5
Overview of FICO® Score 5
What is a FICO® Score? 5
Applying for Credit 6
How the FICO® Score Helps You 6
*How the FICO® Score Works* 8
What's in Your FICO® Score: The 5 Key Ingredients 8
What the FICO® Score Ignores 11
*Tips for Responsible Financial Health Management* 12
Pay on Time… 12
Manage Your Accounts… 12
When Seeking New Credit… 13
Monitoring Your Score is Important 13
*Credit Inquiries and Their Effect on Your FICO® Score* 14
What is an "Inquiry"? 14
How do They Affect My FICO® Score? 14
Minimizing the Impact of Inquiries on the Score 15
*Myths Concerning FICO® Score* 16
Myth: My FICO® Score Determines Whether or Not I Get Credit 16
Myth: A Poor FICO® Score will Haunt Me Forever 16
Myth: My FICO® Score Will Drop if I Apply for New Credit 16
Myth: Credit Scoring Is Unfair to Minorities 16
Myth: Credit Scoring Infringes on My Privacy 16
*Glossary of Credit Terms* 17

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# Introduction to Credit Scoring

When you apply for credit – such as a credit card, auto loan or mortgage – the company from which you are seeking credit checks your credit report from one or more of the three major consumer reporting agencies. In addition to your credit report, they will most likely use a credit score such as the FICO® Score in their evaluation of risk before lending their money to you. There is more than one type of credit score, but the score used 90% of the time in lending decisions is the FICO® Score.

Each lender has its own process and policies for making decisions when reviewing a credit application. Most lenders consider your FICO® Score along with additional information, either from your credit report or from supplemental information you provide with your application, such as your income.

Some lenders are conservative, meaning they only want to lend to the least risky consumers. Other lenders are happy to work with consumers who have less-than-ideal credit histories.

When evaluating your credit risk, the items that lenders generally pay the most attention to are:

- Your FICO® Score
- Your payment history – to see if you have paid your bills on time
- Your current debt – to see if you are able to reasonably take on more debt
- Whether you have had any collection accounts
- Any public records, such as bankruptcies, judgments and liens
- The types of financing you have successfully managed
- The length of your credit history
- Recent activity, including new accounts and credit inquiries by other lenders
- Your income – to determine your ability to make required payments

Based on this information, a lender will decide whether to approve or decline your credit application. If they approve it, they will set your credit terms, such as interest rate, credit limit and down payment requirement.

## What's in Your Credit Report

Lenders who extend you credit regularly provide information to consumer reporting agencies about the type of credit account you have and how you pay your bills. This information forms the basis for your consumer report, which details your credit history as it has been reported to the credit reporting agency by lenders who have extended credit to you in the past. Every U.S. consumer typically has three reports – one at each of the three major U.S. consumer reporting agencies (Equifax, TransUnion, and Experian). Often, lenders report details of your credit history to more than one consumer reporting agency.

Your credit report lists what types of credit you use, the length of time your accounts have been open, and whether you've paid your bills on time. It also tells lenders how much credit you've used and whether you're seeking new credit.

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Your credit report contains many pieces of information – see below for details.
The FICO® Score summarizes credit report information into a single number that lenders can use to assess your credit risk quickly, fairly and consistently. That is a big part of the reason that the FICO® Score is so useful to lenders and borrowers alike.

All credit reports contain basically the same types of information:

- **Personal Information**
  Your name, address, Social Security number, date of birth and employment information. This information is not used in calculating your FICO® Score; it is only used to identify you. Updates to this information come from information you supply to your lenders.

- **Your Credit Accounts**
  Most lenders report information about each account you have established with them. They report the type of account (bank credit card, auto loan, mortgage, etc.), the date you opened the account, your credit limit or loan amount, the account balance, and your payment history.

- **Requests for Credit**
  When you apply for a loan, you authorize your lender to ask for a copy of your credit report. This is how inquiries appear on your report. Your credit report lists inquiries that lenders have made for your credit report within the last two years.

- **Public Record and Collection Items**
  Consumer reporting agencies also collect information on overdue debt from collection agencies and public record information such as bankruptcies, foreclosures, tax liens, garnishment, legal suits and judgments from state and county courthouses. In general, these items remain on your credit report for 7 to 10 years.

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## Checking Your Credit Report for Errors

Because your FICO® Score is based on the information in your credit report, it is very important to make sure that the credit report information is accurate. You should review your credit report from each consumer reporting agency (CRA) at least once a year and before making any large purchases, such as a home or car.

You have the right to obtain one free credit report each year from each of the consumer reporting agencies through **www.AnnualCreditReport.com**. Please note that your free credit report will not include your FICO® Score.

### If you find an error

If you find an error on one or more of your credit reports, contact both the consumer reporting agency and the organization that provided the information to the agency. Both parties are responsible for correcting inaccurate or incomplete information in your report as required by the Fair Credit Reporting Act.

### Fixing credit report errors

To insure that the mistake gets corrected as quickly as possible, contact both the credit bureau and organization that provided the information to the bureau. Both these parties are responsible for correcting inaccurate or incomplete information in your report under the Fair Credit Reporting Act.

1. Tell the CRA in writing what information you believe is inaccurate and request that they fix it. This is called initiating a credit report dispute.

   The CRA must investigate the item(s) in question – usually within 30 days – unless they consider your dispute frivolous. Include copies (NOT originals) of documents that support your position.

   In addition to providing your complete name and address, your letter should:

   - Clearly identify each item in your report that you dispute.
   - State the facts and explain why you dispute the information.
   - Request deletion or correction.

   You may want to enclose a copy of your report with the items in question circled. Send your letter by certified mail, return receipt requested, so you can document that the CRA received your correspondence. Keep copies of your dispute letter and enclosures. Each of the three major consumer reporting agencies offers you the ability to initiate a dispute online in order to correct errors in your credit report.

2. Write the appropriate creditor or other information provider, explaining that you are disputing the information provided to the bureau.

   Again, include copies of documents that support your position. Many providers specify an address for disputes. If the provider again reports the same information to a bureau, it must include a notice of your dispute. Request that the provider copy you on correspondence they send to the bureau. Expect this process to take between 30 and 90 days.

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In many states, you will be eligible to receive a free credit report directly from the CRA, once a dispute has been registered, in order to verify the updated information. Contact the appropriate CRA to see if you qualify for this service.

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# FICO® Score Basics

## Overview of FICO® Score

The FICO® Score is one of many factors nearly all lenders in the U.S. consider when they make key credit decisions. In fact, a US News and World Report article stated that "The FICO® Score is the No. 1 piece of data to determine how much you'll pay on a loan and whether you'll get credit." Such decisions include whether to approve your credit application, what credit terms to offer you and whether to increase your credit limit once your credit account is established.

The FICO® Score is used by thousands of creditors including the 50 largest lenders, making it the most widely used credit score.

- Experts estimate that when lenders get credit scores from CRAs, more than 90 percent of the time they ask for the FICO® Scores.
- The FICO® Score is used today in more than 20 countries on five continents as well as by the top 50 U.S. financial institutions, the 25 largest U.S. credit card issuers and the 25 largest U.S. auto lenders.

While the FICO® Score is used in 90% of lending decisions, lenders may consider other factors when making credit decisions. Other factors lenders might use include: information you provided on your credit application, how much you earn, your regular expenses, and how you manage your credit, checking and savings accounts.

The FICO® Score can influence other decisions, too. The FICO® Score may be used when you apply for a cell phone account, cable TV and utility services.

## What is a FICO® Score?

When you accept new credit and manage it diligently by consistently paying as agreed, you demonstrate to lenders that you represent a good credit risk. Lenders use your credit history as a way of evaluating how well you've managed your credit to date.

A FICO® Score is a three-digit number calculated from the credit information on your credit report at a consumer reporting agency at a particular point in time. It summarizes information in your credit report into a single number that lenders can use to assess your credit risk quickly, consistently, objectively and fairly. Lenders use the FICO® Score to estimate your credit risk – how likely you are to pay your credit obligations as agreed. And it helps you obtain credit based on your actual borrowing and repayment history, without consideration of prohibited types of information such as race or religion.

Your FICO® Score from each agency may be different because the FICO® Score is based solely on the specific credit information in that agency's credit file, and not all lenders report to all three consumer reporting agencies. Even in instances where the lender reports to all three consumer reporting agencies, the timing of when information from credit grantors is updated to your credit file may create differences in your score across the three consumer reporting agencies.

In addition to the three-digit number, the FICO® Score includes "score factors" which are the top factors that affected the score. Addressing some or all of these score factors can help you improve your financial health over time. Having a good FICO® Score can put you

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in a better position to qualify for credit or better terms in the future.

## Applying for Credit

When you apply for credit, your FICO® Score can influence the credit limit, interest rate, loan amount, rewards programs, balance transfer rates, and other terms that lenders will offer you.

The FICO® Score is used by lenders in connection with a wide variety of credit products including:

- Credit Cards
- Auto Loans
- Mortgages
- Home Equity Lines & Loans
- Personal Loans & Lines of Credit
- Student Loans

## How the FICO® Score Helps You

The FICO® Score gives lenders a fast, objective and consistent estimate of your credit risk. Before the use of scoring, the credit granting process could be slow, inconsistent and unfairly biased. Here are some ways the FICO® Score helps you.

### Get credit faster

The FICO® Score can be delivered almost instantaneously, helping lenders speed up credit card and loan approvals. This means when you apply for credit, you'll get an answer more quickly, even within seconds. Even a mortgage application can be approved much faster for borrowers who score above the lender's minimum score requirement. The FICO® Score also allows retail stores, internet sites and other lenders to make "instant credit" decisions. Keep in mind that the FICO® Score is only one of many factors lenders consider when making a credit decision.

### Credit decisions are fairer

Using the FICO® Score, lenders can focus on the facts related to credit risk, rather than their personal opinions or biases. Factors such as your gender, race, religion, nationality and marital status are not considered by the FICO® Score. So when a lender uses your FICO® Score, it is getting an evaluation of your credit history that is fair and objective.

### Older credit problems count for less

If you have had problems paying bills in the past, it won't haunt you forever (unless you continue to pay bills late). The impact of past credit problems on your FICO® Score fades as time passes and as recent good payment patterns show up on your credit report.

### A Higher FICO® Score saves you money

When you apply for credit – whether it's a credit card, a car loan, a personal loan or mortgage – lenders need to understand how risky you are as a borrower in order to make a good decision. Your FICO® Score may affect not only a lender's decision to grant you credit, but also how much credit and on what terms (interest rate, for example). Keep in mind that the FICO® Score is only one of many factors lenders consider when making a

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credit decision.

A higher FICO® Score can help you qualify for better rates from lenders--generally, the higher your score, the lower your interest rate and payments. The difference between a FICO® Score of 620 and 760, for example, can be tens of thousands of dollars over the life of a loan.

Consider this specific example: two different people are borrowing $230,000 on a 30-year mortgage. A borrower with a FICO® Score of 760 could pay **$211 less each month** in interest as compared to a borrower with a FICO® Score of 630. That's a savings of $75,960 over the life of the loan.

On a $20,000, 48-month auto loan, the borrower with a FICO® Score of 720 could pay **$131 less each month** in interest as compared to a borrower with a FICO® Score of 580. That's a savings of $6,288 over the life of the loan.

## Even if your FICO® Score is low, it can put more credit within your reach

Because the FICO® Score allows lender to more accurately associate risk levels with individual borrowers, it allows lenders to offer different prices to different borrowers. Rather than making strictly "yes-no" credit decisions and offering "one-size-fits-all" credit products, lenders use the FICO® Score to approve consumers who might have been declined credit in the past. Lenders are even able to provide higher-risk borrowers with credit that they are more likely to be able to manage.

Remember, the FICO® Score is a time-proven and tested numerical representation of information in your credit report. So it's important to check your report for accuracy at all three major U.S. consumer reporting agencies. All U.S. consumers may request their free credit report each year from **www.AnnualCreditReport.com**.

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# How the FICO® Score Works

The FICO® Score is calculated by a mathematical equation that evaluates many types of information in your credit report at the time the request is made. By comparing this information to the patterns in millions of past credit reports, the FICO® Score provides lenders a consistent and reliable indication of your future credit risk.

The FICO® Score most often falls within a 300-850 score range, while the FICO® Industry Scores range between 250 and 900. For the FICO® Score NG, the score will fall within a 150-950 range. Higher FICO® Scores are considered lower risk, and lower FICO® Scores indicate higher risk.

When a lender receives your FICO® Score, key “score factors" are delivered with the score. These key score factors are the top factors that affected the score. Addressing some or all of these score factors can help you improve your financial health over time. Having a good FICO® Score can put you in a better position to qualify for credit or better terms in the future.

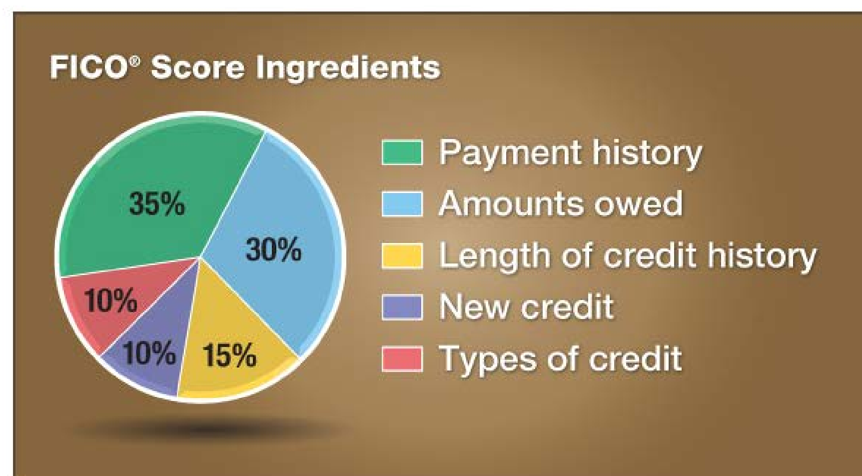
Each lender has its own standards for approving credit applications, including the level of risk it finds acceptable for a given credit product. There is no single "minimum FICO® Score" used by all lenders. If you focus on keeping your FICO® Score in the mid-700s or higher, you likely will qualify for favorable credit products and terms.

FICO’s research shows that people with a high FICO® Score tend to:

- Make all payments on time each month
- Keep credit card balances low
- Apply for new credit only when needed
- Establish a long credit history

## What’s in Your FICO® Score: The 5 Key Ingredients

Your FICO® Score takes into consideration five main categories of information in a credit report. The chart below shows the relative importance of each category to your FICO® Score.

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Below is a detailed breakdown of each category. As you review this information, keep in mind that:

- Your FICO® Score takes into consideration all of these categories, not just one or two.
- The importance of any factor (piece of information) depends on the information in your entire credit report.
- Your FICO® Score looks only at the credit-related information on your credit report.
- Your FICO® Score considers both positive and negative information on your credit report.

## 1. Payment History

Approximately 35% of your FICO® Score is based on this information, which includes:

- Payment information on many types of accounts:
  - Credit cards – such as Visa, MasterCard, American Express and Discover.
  - Retail accounts – credit from stores where you do business, such as department store credit cards.
  - Installment loans – loans where you make regular payment amounts, such as car loans and mortgage loans.
  - Finance company accounts.
- Public record and collection items – reports of events such as bankruptcies, foreclosures, lawsuits, wage attachments, liens and judgments.
- Details on late or missed payments ("delinquencies") and public record and collection items.
- The number of accounts that show no late payments or are currently paid as agreed.

## 2. The Amounts You Owe

Approximately 30% of your FICO® Score is based on information which evaluates your indebtedness. In this category, your FICO® Score takes into account:

- The amount owed on all accounts.
- The amount owed on different types of accounts.
- Whether you are showing a balance on certain types of accounts.
- The number of accounts where you carry a balance.
- How much of the total credit line is being used on credit cards and other revolving credit accounts.
- How much is still owed on installment loan accounts, compared with the original loan amounts.

Credit utilization, one of the most important factors evaluated in this category, considers the amount you owe compared to how much credit you have available. For example, if you have a $2,000 balance on one card and a $3,000 balance on another, and each card has a $5,000 limit, your credit utilization rate would be 50%. While lenders determine how much credit they are willing to provide, you control how much you use. FICO's research shows that people using a high percentage of their available credit limits are more likely to have trouble making some payments now or in the near future, compared to people using a lower level of credit.

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Having credit accounts with an outstanding balance does not necessarily mean you are a high-risk borrower with a low FICO® Score. A long history of demonstrating consistent payments on credit accounts is a good way to show lenders you can responsibly manage additional credit.

### 3. Length of Credit History

Approximately 15% of your FICO® Score is based on this information.
In general, a longer credit history will increase your FICO® Score, all else being equal. However, even people who have not been using credit long can get a good FICO® Score, depending on what their credit report says about their payment history and amounts owed. Regarding your length of history, your FICO® Score takes into account:

- How long your credit accounts have been established. Your FICO® Score can consider the age of your oldest account, the age of your newest account and the average age of all your accounts.
- How long specific credit accounts have been established.
- How long it has been since you used certain accounts.

### 4. New Credit

Approximately 10% of your FICO® Score is based on this information.

FICO's research shows that opening several credit accounts in a short period of time represents greater risk – especially for people who do not have a long credit history. In this category your FICO® Score takes into account:

- How many new accounts you have opened.
- How long it has been since you opened a new account.
- How many recent requests for credit you have made, as indicated by inquiries to the consumer reporting agencies.
- Length of time since credit report inquiries were made by lenders.
- Whether you have a good recent credit history, following any past payment problems.

Looking for an auto, mortgage or student loan may cause multiple lenders to request your credit report, even though you are only looking for one loan. In general, the FICO® Score compensates for this shopping behavior in the following ways:

- The FICO® Score ignores auto, mortgage, and student loan inquiries made in the 30 days prior to scoring. So, if you find a loan within 30 days, the inquiries won't affect your score while you're rate shopping.
- After 30 days, the FICO® Score typically counts inquiries of the same type (i.e., auto, mortgage or student loan) that fall within a typical shopping period as just one inquiry when determining your score.

### 5. Types of Credit in Use

Approximately 10% of your FICO® Score is based on this information.

Your FICO® Score considers your mix of credit cards, retail accounts, installment loans, finance company accounts and mortgage loans. It is not necessary to have one of each, and it is not a good idea to open a credit account you don't intend to use. In this category your FICO® Score takes into account:

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- What kinds of credit accounts you have. Do you have experience with both revolving (credit cards) and installment (fixed loan amount and payment) accounts, or has your credit experience been limited to only one type?
- How many accounts you have of each type. Your FICO® Score also looks at the total number of accounts you have. For different credit profiles, how many is too many will vary depending on your overall credit picture.

## What the FICO® Score Ignores

The FICO® Score considers a wide range of information on your credit report. However, it does NOT consider:

- Your race, color, religion, national origin, sex and marital status. U.S. law prohibits credit scoring from considering these facts, or considering any receipt of public assistance, or the exercise of any consumer right under the Consumer Credit Protection Act.
- Your age. Other types of scores may consider your age, but the FICO® Score does not.
- Your salary, occupation, title, employer, date employed or employment history. Lenders may, however, consider this information separately.
- Where you live.
- Any interest rate being charged on a particular credit card or other account.
- Any items reported as child/family support obligations.
- Certain types of inquiries (requests for your credit report or score). Your FICO® Score does not count any inquiries you initiate from checking your own credit report, any inquiries from employers or insurance companies, or any inquiries lenders make without your knowledge.
    - Checking your own credit report and scores will never affect your FICO® Score.
- Any information not found in your credit report.
- Any information that is not proven to be predictive of future credit performance.

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# Tips for Responsible Financial Health Management

The best advice is to manage your financial responsibilities over time. Here are some tips and notes for responsibly managing your financial health.

## Pay on Time...

### Always pay your bills on time

Late payments and collections can have a major impact on your FICO® Score. Also, note that paying off a collection account, or closing an account on which you previously missed a payment, will not remove it from your credit report. The missed payment will stay on your report for seven years.

### If you have missed payments, get current and stay current

The fewer times your payments are late and the longer that you pay your bills on time, the better off you can be. If you've had a hard time paying your bills on time, consider signing up for an automated bill payment service.

### If you are having trouble paying your bills

Contact your creditors or seek help from a non-profit credit counseling agency. A legitimate credit counseling agency can work with your creditors to lower your monthly payments. If you can begin to manage your credit responsibly and understand the benefit of paying bills on time, this can help you responsibly manage your financial health over time.

## Manage Your Accounts...

### Keep your balances low

High balances on your credit cards and other revolving credit can lower your FICO® Score.

### Manage credit cards responsibly

In general, having credit cards doesn’t hurt your FICO® Score if you make payments on time. People without credit cards, for example, tend to be slightly higher risk than people who have shown they can manage credit cards responsibly.

### Do not open cards that you don't need

While your available credit amount might increase, this behavior could backfire and lower your FICO® Score. New accounts can lower the average time you’ve had credit accounts established, which can lower your FICO® Score. Keep in mind: Even if you have used credit for a long time, opening a new account can still lower your FICO® Score.

### Close unused credit cards cautiously

Owing the same amount but having fewer open accounts may actually lower your FICO® Score. Keep this in mind if you decide to close unused cards. You may want to keep balances very low on your active credit cards if you decide to close unused cards.

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### It's OK to request and check your own credit report

Every 12 months you are entitled by law to one free credit report from each consumer reporting agency through **www.AnnualCreditReport.com**. Checking your own credit report will not harm your FICO® Score.

## When Seeking New Credit...

### Do your rate shopping within a short period of time

If you're looking for a mortgage, student loan or an auto loan, you may want to check with several lenders to find the best rate. This can cause multiple lenders to request your credit report, even though you're only looking for one loan. These requests are referred to as inquiries, and in general, frequent inquiries indicate higher risk (and therefore could lower your FICO® Score). However, your FICO® Score typically accounts for this rate shopping behavior by treating multiple inquiries from auto, mortgage, or student loan lenders within a short period of time as a single inquiry. Because of that, it is best to do your shopping within a reasonable shopping period if possible.

## Monitoring Your Score is Important

Your FICO® Score is based on the information in your credit report at one point in time and can change whenever your credit report changes. But your FICO® Score probably won't change a lot from one month to the next. However, certain events such as bankruptcy or late payments can lower your FICO® Score fast. That's why it's a good idea to check and monitor your FICO® Score 6 to 12 months before applying for a big loan, so you can better understand your FICO® Score and take action if needed. If you are actively working to improve your understanding of your FICO® Score, you may want to check your score quarterly or even monthly.

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# Credit Inquiries and Their Effect on Your FICO® Score

A search for new credit can mean you pose a greater credit risk. This is why the FICO® Score counts inquiries—requests a lender makes for your credit report or scores when you apply for credit. The FICO® Score considers inquiries very carefully, as not all inquiries are related to credit risk.

## What is an "Inquiry"?

When you apply for credit, you authorize those lenders to ask or "inquire" for a copy of your credit report from a CRA. When you later check your credit report, you may notice that their credit inquiries are listed. You may also see listed there inquiries by businesses that you don't know, such as lenders who have mailed you a credit card solicitation. The only inquiries considered by your FICO® Score are the ones that result from your applications for new credit.

## How do They Affect My FICO® Score?

The FICO® Score considers inquiries very carefully, as not all inquiries are related to credit risk. There are three important facts to know about inquiries:

- Inquiries usually have a small impact. For most people, one additional credit inquiry will take less than five points off their FICO® Score. Much more important for your score are factors like: how timely you pay your bills and your overall debt burden as indicated on your credit report.

- Many types of inquiries are ignored completely. Your FICO® Score does not count an inquiry when you order your credit report or credit score. Also, the FICO® Score does not count inquiries a lender has made for your credit report or score in order to make you a "pre-approved" credit offer, or to review your account with them, even though you may see these inquiries on your credit report. Inquiries that are marked as coming from employers or insurers are not counted either. The FICO® Score only considers inquiries that are a result of you applying for new credit.

- FICO® scoring models largely use specialized logic that accounts for rate shopping for student, auto and mortgage loans. In general, student loan, auto and mortgage-related inquiries that occur 30 days prior to scoring have little or no effect at all on the FICO® Score.

  If you were to shop for a car loan and home loan during the same shopping period, the auto loan inquiries would generally be counted as one inquiry, and the mortgage loan inquiries would be counted separately as another inquiry. This is because they represent two separate searches for credit.

  The best advice for consumers concerned about score impact is to do their rate shopping in a reasonably short period. That's easier if borrowers do their

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homework ahead of time to decide which companies to approach for quotes. Such planning also should make the loan rates easier to compare since the quotes will come only a few days apart.

## Minimizing the Impact of Inquiries on the Score

### Do your rate shopping for a given auto, mortgage or student loan within a short period of time.

Generally, the FICO® Score distinguishes between a search for a single loan and a search for many new credit lines, in part by the length of time over which inquiries occur.

### Be careful about opening new accounts that you don't need.

Opening new accounts can lower your FICO® Score in the short term. Beware of discounts or low interest rates being offered to entice you to open a new charge account that you don't need.

### Note that it's OK to request and check your own credit report and your own FICO® Score.

This won't affect your FICO® Score, as long as you order your credit report directly from the consumer reporting agency or through an organization authorized to provide credit reports to consumers.

Also, here are some good financial health management practices:

- Pay your bills on time.
- Keep balances low on credit cards and other revolving credit products.
- Re-establish your credit history if you have had problems. Open new accounts responsibly and pay them on time.
- Check your own credit reports regularly to be sure they are accurate and up-to-date. As long as you order your credit report through an organization authorized to provide credit reports to consumers, your own inquiries will not affect your FICO® Score.

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# Myths Concerning FICO® Score

## Myth: My FICO® Score Determines Whether or Not I Get Credit.

**Truth:** Lenders use a number of pieces of information about you and about the loan for which you are applying to make credit decisions, including your FICO® Score. Lenders look at information such as the amount of debt you can reasonably handle given your income, your employment history and your credit history. Based on their analysis of this information, as well as their specific underwriting policies, lenders may extend credit to you even with a low FICO® Score, or decline your request for credit even with a high FICO® Score.

## Myth: A Poor FICO® Score will Haunt Me Forever.

**Truth:** Just the opposite is true. A FICO® Score is an indicator of your risk at a particular point in time. It changes as new information is added to your credit report and as historical information ages. Your FICO® Score changes gradually as you change the way you handle credit. For example, past credit problems impact your FICO® Score less as time passes. Lenders request a current FICO® Score when you submit a credit application, so they have the most recent information available.

## Myth: My FICO® Score Will Drop if I Apply for New Credit.

**Truth:** If it does, it probably won't drop much. If you apply for several credit cards within a short period of time, multiple requests for your credit report information (called "inquiries") will appear on your report. Looking for new credit can indicate higher risk to a lender, but your FICO® Score is 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 tend to have little impact on your FICO® Score.

## Myth: Credit Scoring Is Unfair to Minorities.

**Truth:** The FICO® Score considers only credit-related information. Factors like gender, race, nationality and marital status are not included. In fact, the Equal Credit Opportunity Act (ECOA) prohibits lenders from considering this type of information when issuing credit. Independent research has been done to make sure that the FICO® Score is not unfair to minorities or people with little credit history. The FICO® Score has proven to be an accurate and consistent measure of repayment risk for all people who have some credit history.

## Myth: Credit Scoring Infringes on My Privacy.

**Truth:** The FICO® Score evaluates the same information at which lenders already look—the credit report. Your FICO® Score is a number that summarizes your credit risk based on a snapshot of your credit report information. Lenders using the FICO® Score may in fact ask for less information, for instance having fewer questions on the application form.

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# Glossary of Credit Terms

### Adverse action notice

A notice sent by a lender after denying a person's request for credit based on information in the person's credit report.

### Balance

The amount owed on a credit obligation.

### Bankruptcy

A proceeding in U.S. Bankruptcy Court that may legally release a person from repaying debts owed, or reduce the amount owed over a few years. Credit reports normally include bankruptcies for up to 10 years.

### Charge-off

A declaration by a lender, generally for tax purposes, that an amount of debt is unlikely to be collected, which can happen when a person becomes severely delinquent in repaying a debt. The lender reports to the credit bureau that it has taken a loss, but the borrower is still responsible for paying back the debt. Also known as a "write-off."

### Collection

Attempted recovery of a past-due credit obligation by a lender's collection department or a separate collection agency.

### Consumer Reporting Agency (CRA)

See *credit bureau.*

### Credit account

A specific lending arrangement between a creditor and borrower that provides the borrower with a loan or a revolving instrument such as a credit card, with an obligation to repay the creditor. Sometimes referred to as a credit obligation.

### Credit bureau

An agency that collects and stores individual credit information and sells it for a fee to creditors so they can make decisions on granting loans and other credit activities. Typical clients include banks, mortgage lenders and credit card issuers. Also commonly referred to as consumer reporting agency (CRA), credit reporting agency or credit repository. The three largest credit bureaus in the U.S. are Equifax, Experian and TransUnion.

### Credit bureau risk score

A credit score calculated by a credit bureau, based only on the credit history from the person's credit report. The FICO® Score is the leading brand of credit bureau risk scores.

### Credit file

The credit records at a credit bureau regarding a given individual. The file may include: the person's name, address, Social Security Number, credit history, inquiries, collection records, and public records such as bankruptcy filings and tax liens.

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### Credit history

A record of a person's credit accounts and activities, including how the person has repaid credit obligations in the past.

### Credit limit

The amount of credit that a financial institution extends to a borrower. Credit limit also refers to the maximum amount a credit card company will allow someone to borrow on a single card. Credit limits are usually determined based on the applicant's FICO® Score and information contained in their credit application.

### Credit obligation

See *credit account*.

### Credit report

A detailed report of an individual's credit history as stored in an individual's credit file, prepared by a credit bureau and used by a lender when making credit decisions. Most credit reports include: the person's name, address, credit history, inquiries, collection records, and any public records such as bankruptcy filings and tax liens.

### Credit risk

The likelihood that individuals will not pay their credit obligations as agreed. Borrowers who are more likely to pay as agreed pose less risk to creditors and lenders.

### Credit score

A statistically derived number that provides a snapshot of a person's credit risk. The FICO® Score is a credit score and a rank-ordering tool–higher scores will correspond to better credit risk than lower scores. Credit risk is the likelihood that the person, compared to other people, will default on a credit obligation. A credit score is usually based only on a person's past and current credit information. Lenders use the scores when making credit decisions at different points in a person's credit lifecycle.

### Default

When a debtor (or borrower) is unable or unwilling to meet the legal obligation of debt repayment. Usually an account is considered to be "in default" after being delinquent for several consecutive 30-day billing cycles.

### Delinquent

A failure to deliver even the minimum payment on a loan or debt payment on or before the time agreed. Because most lenders have monthly payment cycles, they usually refer to such accounts as 30, 60, 90 or 120 days delinquent.

### Equal Credit Opportunity Act (ECOA)

Federal legislation that prohibits discrimination in credit. The ECOA originally was enacted in 1974 as Title VII of the Consumer Credit Protection Act.

### Fair Credit Reporting Act (FCRA)

Federal legislation that promotes the accuracy, confidentiality and proper use of information in the files of every "consumer reporting agency". The FCRA was enacted in 1970.

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## FICO

FICO, formerly known as Fair Isaac Corporation, is the company that invented the FICO® Score. Starting in the 1950s, FICO sparked a revolution in credit risk assessment by pioneering credit risk scoring for credit grantors. This new approach to measuring risk enabled banks, retailers and other businesses to improve their performance and to expand consumers' access to credit. Today, the FICO® Score is widely recognized as the industry standard for measuring credit risk.

## FICO® Industry Score

A type of FICO® Score offered by all three U.S. consumer reporting agencies—Equifax, Experian and TransUnion, that ranges from 250 to 900 and is used by some lenders to address specific types of lending products, such as auto loans or credit cards.

## FICO® Score

A credit bureau risk score produced using a scoring model developed by FICO. The FICO® Score is used by lenders and others to assess the credit risk of prospective borrowers or existing customers, in order to help make credit and marketing decisions. The FICO® Score only uses credit report information that has proven to be predictive of credit risk.

The FICO® Score is available through all three major U.S. consumer reporting agencies (credit bureaus).

## FICO® Score NG

At type of FICO® Score offered by all three U.S. consumer reporting agencies—Equifax, Experian and TransUnion that ranges from 150 to 950 and is used by some lenders.

## Inquiry

An item on a person's credit report indicating that someone with a "permissible purpose" (under FCRA rules) has previously requested a copy of the person's credit report or credit score. The FICO® Score only considers inquiries by lenders resulting from a person's application for credit; all other inquiries are ignored.

## Installment debt

Debt to be paid back at regular intervals over a specified period. Examples of installment debt include most mortgages and auto loans. Sometimes referred to as an "installment account" or an "installment loan."

## Late payment

A failure to deliver a loan or debt payment on or before the due date. Also see *Delinquent*.

## Permissible purpose

The Fair Credit Reporting Act (FCRA) prohibits a consumer reporting agency (credit bureau) from furnishing an individual's consumer report unless there is a permissible purpose. Permissible purposes include the use of the consumer report in connection with a credit or insurance transaction, for employment purposes, and for account review. The consumer reporting agency may also furnish a consumer report if a consumer gives his or her consent.

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## Revolving credit/debt

A line of credit that the borrower can repeatedly use and pay back without having to reapply every time credit is used. Bank credit cards are the most common type of revolving credit account. Other types include department store cards and travel charge cards.

## Risk-based pricing

The practice of setting credit terms, such as interest rate or credit limit, based on a person's credit risk is referred to as risk-based pricing. Creditors that engage in risk-based pricing generally offer more favorable terms to borrowers with good FICO® Scores and less favorable terms to borrowers with poor FICO® Scores.

## Score

The numeric output from a predictive scoring model. The most common type of score used by lenders is a credit risk score such as the FICO® Score. Also see *Credit score*.

## Score factors

Delivered with a consumer's FICO® Score, these are the top areas that affected that consumer's FICO® Score. The order in which the score factors are listed is important. The first factor indicates the area that most influenced the score and the second factor is the next most significant influence. Addressing some or all of these score factors can help you improve your financial health over time.

## Scoring model

A mathematical formula or statistical algorithm used to predict certain behaviors of prospective borrowers or existing customers relative to other people. A scoring model calculates scores based on data such as information on a consumer's credit report that has proven to be predictive of specific consumer behaviors.

## Utilization

The proportion of the balance owed on revolving accounts divided by the available credit limit(s). Utilization is an input used in determining a person's credit score. Typically it is the amount of outstanding balances on all credit cards divided by the sum of their credit limits, and it's expressed as a percentage. For example, if you have a $2,000 balance on one card and a $3,000 balance on another, and each card has a $5,000 limit, your credit utilization rate would be 50%. This ratio may also be calculated for each credit card individually.

## Write-off

See *Charge-off*.

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