

Credit Scoring

(how to interpret)

Lenders have utilized credit scoring for over 20 years. A score is a scientific way of assessing how likely a borrower is to pay his bills. Credit score is based on the data available in the borrower's credit report and measures the relative amount of a risk potential borrower represents to the lender or investor. The most widely recognized score for the industry is the FICO, or Fair Isaac Score.

FICO scores range from approximately 350 to 875 points, and are available from all three of the credit repositories. Each bureau also has its own name for its version of the FICO.

EQUIFAX – Beacon

TRANS UNION – Empirica

EXPERIAN – Fair Isaac

FICO scores are calculated by a system of scorecards. In developing these scorecards Fair Isaac uses actual credit data on millions of consumers and applies complex mathematical methods to perform extensive research into credit patterns that forecast the likelihood that a consumer will make his or her loan payments as agreed in the future FICO models at each bureau are similar design and the scores are scaled to provide a similar degree of risk. The risk is defined in the number of accounts that remain in good standing compared to those that default.

Why is credit scoring taken hold in the industry? The primary force driving this relatively recent phenomenon is the endorsement given credit scoring by some of the largest investors in the United States. These companies have all set similar “cutoffs”. For example, a score less than 620 would indicate a need for a cautious, detailed review of a applicant's credit history in order to identify compensating strengths to offset the credit score. (Ex: High Income)-If other strengths are not available, sometimes the terms of the “deal” are change i.e. interest rates, down payments or security deposits are increased. To assist you in understanding why a bureau returned a low FICO score, each provides up to four reason codes when posting a FICO on a credit report. These reasons or adverse action codes are the primary factors contributing to the compilation of an individual's score.

Summary

Note: The higher the score the better

700 - 875 Excellent Risk

660 - 699 Good Risk

600 - 659 Average Risk

350 - 599 Below Average Risk