

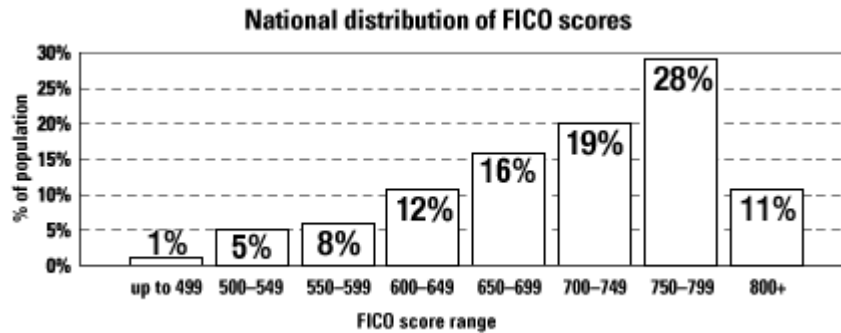
## Credit Scores

Along with the credit report, lenders can also buy a credit score based on the information in the report. That score is calculated by a mathematical equation that evaluates many types of information that are on your credit report at that agency. By comparing this information to the patterns in hundreds of thousands of past credit reports, the score identifies your level of future credit risk.

In order for a FICO® score to be calculated on your credit report, the report must contain at least one account which has been open for six months or greater. In addition, the report must contain at least one account that has been updated in the past six months. This ensures that there is enough information - and enough recent information - in your report on which to base a score.

### About FICO scores

Credit bureau scores are often called "FICO scores" because most credit bureau scores used in the US are produced from software developed by Fair Isaac and Company. FICO scores are provided to lenders by the three major credit reporting agencies: Equifax, Experian and TransUnion.



FICO scores provide the best guide to future risk based solely on credit report data. The higher the score, the lower the risk. But no score says whether a specific individual will be a "good" or "bad" customer. And while many lenders use FICO scores to help them make lending decisions, each lender has its own strategy, including the level of risk it finds acceptable for a given credit product. There is no single "cutoff score" used by all lenders and there are many additional factors that lenders use to determine your actual interest rates.

### Other Names for FICO Scores

FICO scores have different names at each of the three credit reporting agencies. All of these scores, however, are developed using the same methods by Fair Isaac, and have been rigorously tested to ensure they provide the most accurate picture of credit risk possible using credit report data.

CREDIT REPORTING AGENCY	FICO SCORE
Equifax	BEACON5®
Experian	Experian/Fair Isaac Risk Model
TransUnion	EMPIRICA98®

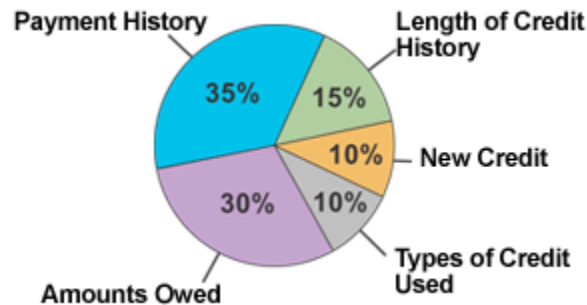
### More than one score

In general, when people talk about "your score", they're talking about your current FICO score. However, there is no one score used to make decisions about you. This is true because:

- **Credit bureau scores are not the only scores used.**  
Many lenders use their own scores, which often will include the FICO score as well as other information about you.
- **FICO scores are not the only credit bureau scores.**  
There are other credit bureau scores, although FICO scores are by far the most commonly used. Other credit bureau scores may evaluate your credit report differently than FICO scores, and in some cases a higher score may mean more risk, not less risk as with FICO scores.
- **Your score may be different at each of the three main credit reporting agencies.**  
The FICO score from each credit reporting agency considers only the data in your credit report at that agency. If your current scores from the three credit reporting agencies are different, it's probably because the information those agencies have on you differs.
- **Your FICO score changes over time.**  
As your data changes at the credit reporting agency, so will any new score based on your credit report. So your FICO score from a month ago is probably not the same score a lender would get from the credit reporting agency today.

## What's in Your Score

FICO Scores are calculated from a lot of different credit data in your credit report. This data can be grouped into five categories as outlined below. The percentages in the chart reflect how important each of the categories is in determining your score.



These percentages are based on the importance of the five categories for the general population. For particular groups - for example, people who have not been using credit long - the importance of these categories may be somewhat different.

### Payment History

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- Account payment information on specific types of accounts (credit cards, retail accounts, installment loans, finance company accounts, mortgage, etc.)
  - Presence of adverse public records (bankruptcy, judgements, suits, liens, wage attachments, etc.), collection items, and/or delinquency (past due items)
  - Severity of delinquency (how long past due)
  - Amount past due on delinquent accounts or collection items
  - Time since (recency of) past due items (delinquency), adverse public records (if any), or collection items (if any)
  - Number of past due items on file
  - Number of accounts paid as agreed

#### **Amounts Owed**

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- Amount owing on accounts
- Amount owing on specific types of accounts
- Lack of a specific type of balance, in some cases
- Number of accounts with balances
- Proportion of credit lines used (proportion of balances to total credit limits on certain types of revolving accounts)
- Proportion of installment loan amounts still owing (proportion of balance to original loan amount on certain types of installment loans)

#### **Length of Credit History**

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- Time since accounts opened
- Time since accounts opened, by specific type of account
- Time since account activity

#### **New Credit**

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- Number of recently opened accounts, and proportion of accounts that are recently opened, by type of account
- Number of recent credit inquiries
- Time since recent account opening(s), by type of account
- Time since credit inquiry(s)
- Re-establishment of positive credit history following past payment problems

#### **Types of Credit Used**

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- Number of (presence, prevalence, and recent information on) various types of accounts (credit cards, retail accounts, installment loans, mortgage, consumer finance accounts, etc.)

Please note that:

- **A score takes into consideration all these categories of information, not just one or two.**  
No one piece of information or factor alone will determine your score.
- **The importance of any factor depends on the overall information in your credit report.**  
For some people, a given factor may be more important than for someone else with a different credit history. In addition, as the information in your credit report changes, so does the importance of any factor in determining your score. Thus, it's impossible to say exactly how important any single factor is in determining your score - even the levels of importance shown here are for the general population, and will be different for different credit profiles. What's important is the mix of information, which varies from person to person, and for any one person over time.
- **Your FICO score only looks at information in your credit report.**  
However, lenders look at many things when making a credit decision including your income, how long you have worked at your present job and the kind of credit you are requesting.
- **Your score considers both positive and negative information in your credit report.**  
Late payments will lower your score, but establishing or re-establishing a good track record of making payments on time will raise your score.

## What's Not in Your Score

FICO scores consider a wide range of information on your credit report. However, they do not consider:

- **Your race, color, religion, national origin, sex and marital status.**  
US law prohibits credit scoring from considering these facts, as well as 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 FICO scores don't.
- **Your salary, occupation, title, employer, date employed or employment history.**  
Lenders may consider this information, however, as may other types of scores.
- **Where you live.**
- **Any interest rate being charged on a particular credit card or other account.**
- **Any items reported as child/family support obligations or rental agreements.**
- **Certain types of inquiries (requests for your credit report).**  
The score does not count "consumer-initiated" inquiries - requests you have made for your credit report, in order to check it. It also does not count "promotional inquiries" - requests made by lenders in order to make you a "pre-approved" credit offer - or "administrative inquiries" - requests made by lenders to review your account with them. Requests that are marked as coming from employers are not counted either.
- **Any information not found in your credit report.**
- **Any information that is not proven to be predictive of future credit performance.**
- **Whether or not you are participating in a credit counseling of any kind.**

## How Scoring

## Helps You

Credit scores give lenders a fast, objective measurement of your credit risk. Before the use of scoring, the credit granting process could be slow, inconsistent and unfairly biased.

Credit scores - especially FICO® scores, the most widely used credit bureau scores - have made big improvements in the credit process. Because of credit scores:

- **People can get loans faster.**  
Scores can be delivered almost instantaneously, helping lenders speed up loan approvals. Today many credit decisions can be made within minutes. Even a mortgage application can be approved in hours instead of weeks for borrowers who score above a lender's "score cutoff". Scoring also allows retail stores, Internet sites and other lenders to make "instant credit" decisions.
- **Credit decisions are fairer.**  
Using credit scoring, lenders can focus only on the facts related to credit risk, rather than their personal feelings. Factors like your gender, race, religion, nationality and marital status are not considered by credit scoring.
- **Credit "mistakes" count for less.**  
If you have had poor credit performance in the past, credit scoring doesn't let that haunt you forever. Past credit problems fade as time passes and as recent good payment patterns show up on your credit report. Unlike so-called "knock out rules" that turn down borrowers based solely on a past problem in their file, credit scoring weighs all of the credit-related information, both good and bad, in your credit report.
- **More credit is available.**  
Lenders who use credit scoring can approve more loans, because credit scoring gives them more precise information on which to base credit decisions. It allows lenders to identify individuals who are likely to perform well in the future, even though their credit report shows past problems. Even people whose scores are lower than a lender's cutoff for "automatic approval" benefit from scoring. Many lenders offer a choice of credit products geared to different risk levels. Most have their own separate guidelines, so if you are turned down by one lender, another may approve your loan. The use of credit scores gives lenders the confidence to offer credit to more people, since they have a better understanding of the risk they are taking on.
- **Credit rates are lower overall.**  
With more credit available, the cost of credit for borrowers decreases. Automated credit processes, including credit scoring, make the credit granting process more efficient and less costly for lenders, who in turn have passed savings on to their customers. And by controlling credit losses using scoring, lenders can make rates lower overall. Mortgage rates are lower in the United States than in Europe, for example, in part because of the information - including credit scores - available to lenders here. Knowing and improving your score can also lead to more favorable interest rates.

## Improving Your Score

It's important to note that raising your score is a bit like losing weight: It takes time and there is no quick fix. In fact, quick-fix efforts can backfire. The best advice is to manage credit responsibly over time and some simple tips for raising your score.

### Payment History Tips

- **Pay your bills on time.**  
Delinquent payments and collections can have a major negative impact on your score.
- **If you have missed payments, get current and stay current.**  
The longer you pay your bills on time, the better your score.
- **Be aware that paying off a collection account will not remove it from your credit report.**  
It will stay on your report for seven years.
- **If you are having trouble making ends meet, contact your creditors or see a legitimate credit counselor.**  
This won't improve your score immediately, but if you can begin to manage your credit and pay on time, your score will get better over time.

### Amounts Owed Tips

- **Keep balances low on credit cards and other "revolving credit".**  
High outstanding debt can affect a score.
- **Pay off debt rather than moving it around.**  
The most effective way to improve your score in this area is by paying down your revolving credit. In fact, owing the same amount but having fewer open accounts may lower your score.
- **Don't close unused credit cards as a short-term strategy to raise your score.**
- **Don't open a number of new credit cards that you don't need, just to increase your available credit.**  
This approach could backfire and actually lower score.

### Length of Credit History Tips

- **If you have been managing credit for a short time, don't open a lot of new accounts too rapidly.**  
New accounts will lower your average account age, which will have a larger effect on your score if you don't have a lot of other credit information. Also, rapid account buildup can look risky if you are a new credit user.

### New Credit Tips

- **Do your rate shopping for a given loan within a focused period of time.**  
FICO® scores distinguish 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.
- **Re-establish your credit history if you have had problems.**  
Opening new accounts responsibly and paying them off on time will raise your score in the long term.
- **Note that it's OK to request and check your own credit report.**  
This won't affect your score, as long as you order your credit report directly from the credit reporting

agency or through an organization authorized to provide credit reports to consumers.

### Types of Credit Use Tips

- **Apply for and open new credit accounts only as needed.**  
Don't open accounts just to have a better credit mix - it probably won't raise your score.
- **Have credit cards - but manage them responsibly.**  
In general, having credit cards and installment loans (and paying timely payments) will raise your score. Someone with no credit cards, for example, tends to be higher risk than someone who has managed credit cards responsibly.
- **Note that closing an account doesn't make it go away.**  
A closed account will still show up on your credit report, and may be considered by the score.

### Facts & Fallacies

#### **Fallacy: My score determines whether or not I get credit.**

**Fact:** Lenders use a number of facts 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 perception of this information, as well as their specific underwriting policies, lenders may extend credit to you although your score is low, or decline your request for credit although your score is high.

#### **Fallacy: A poor score will haunt me forever.**

**Fact:** Just the opposite is true. A score is a "snapshot" of your risk at a particular point in time. It changes as new information is added to your bank and credit bureau files. Scores change gradually as you change the way you handle credit. For example, past credit problems impact your score less as time passes. Lenders request a current score when you submit a credit application, so they have the most recent information available. Therefore by taking the time to improve your score, you can qualify for more favorable interest rates.

#### **Fallacy: Credit scoring is unfair to minorities.**

**Fact:** Scoring 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 credit scoring is not unfair to minorities or people with little credit history. Scoring has proven to be an accurate and consistent measure of repayment for all people who have some credit history. In other words, at a given score, non-minority and minority applicants are equally likely to pay as agreed.

#### **Fallacy: Credit scoring infringes on my privacy.**

**Fact:** Credit scoring evaluates the same information lenders already look at - the credit bureau report, credit application and/or your bank file. A score is simply a numeric summary of that information. Lenders using scoring sometimes ask for less information - fewer questions on the application form, for example.

#### **Fallacy: My score will drop if I apply for new credit.**

**Fact:** 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 equate with higher risk, but most credit scores are not affected by multiple inquiries from auto or mortgage lenders within a short period of time. Typically, these are treated as a single inquiry and will have little impact on the credit score.

### Credit Reports

Credit reporting agencies maintain files on millions of borrowers. Lenders making credit decisions buy credit reports on their prospects, applicants and customers from the credit reporting agencies.

Your report details your credit history as it has been reported to the credit reporting agency by lenders who have extended credit to you. 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 tells lenders how much credit you've used and whether you're seeking new sources of credit. It gives lenders a broader view of your credit history than do other data sources, such as a bank's own customer data.

### **Creating Your Credit Report**

Your credit report does not really exist until you or a lender asks for it. It is then compiled by the credit reporting agency based on the information stored in that agency's file. This information is supplied by lenders, by you and by court records.

Tens of thousands of credit grantors - retailers, credit card issuers, banks, finance companies, credit unions, etc. - send updates to each of the credit reporting agencies, usually once a month. These updates include information about how their customers use and pay their accounts.

Your credit report reveals many aspects of your borrowing activities. All pieces of information should be considered in relationship to other pieces of information. The ability to quickly, fairly and consistently consider all this information is what makes credit scoring so useful.

### **Checking Your Report**

You should make sure the information in your credit report is correct. Not only is your credit score based on this information, but lenders also review this information in making credit decisions. Review your credit report from each credit reporting agency at least once a year and especially before making a large purchase, like a house or car. To request a copy, contact the credit reporting agencies directly:

- Equifax: (800) 685-1111, [www.equifax.com](http://www.equifax.com)
- Experian (formerly TRW): (888) 397-3742, [www.experian.com](http://www.experian.com)
- TransUnion: (800) 888-4213, [www.transunion.com](http://www.transunion.com)

If you find an error, the credit reporting agency must investigate and respond to you within 30 days. All disputes can be done directly with each credit repository on-line via their consumer dispute page. If you are in the process of applying for a loan, immediately notify your lender of any incorrect information in your report. Your lender will need to reorder your credit report and score once any changes have been made to your information at the credit reporting agency. Small errors may have little or no effect on your score. If there are significant errors, however, the lender may disregard the score.

**Note:** *only the credit reporting agencies have the data from which FICO® scores are calculated. Fair Isaac can't correct data at the credit reporting agencies.*

### **Average Credit Statistics**

Fair Isaac is often asked to describe the credit use of a typical consumer. In researching the answer, we discovered that consumers vary immensely in what types of credit they use and how they use it.

By analyzing a large sample of credit file information on people who recently obtained new credit, Fair Isaac was able to survey the panorama of credit activity across the U.S. The following statistics reflect the average use of credit by today's consumers.

### **Number of Credit Obligations**

On average, today's consumer has a total of 11 credit obligations on record at a credit bureau. These include credit cards (such as department store charge cards, gas cards, or bank cards) and installment loans (auto loans, mortgage loans, student loans, etc.). Not included are savings and checking accounts (typically not reported to a credit bureau). Of these 11 credit obligations, 7 are likely to be credit cards and 4 are likely to be installment loans.

### **Past Payment Performance**

On average, today's consumers are paying their bills on time. Fewer than 4 out of 10 have ever been reported as 30 or more days late on a payment. Only 2 out of 10 have ever been 60 or more days overdue on any credit obligation. 85% of all consumers have never had a loan or account that was 90+ days overdue, and less than 10% have ever had a loan or account closed by the lender due to default.

### **Credit Utilization**

About 48% of credit card holders carry a balance of less than \$1,000. About 10% are far less conservative in their use of credit cards and have total card balances in excess of \$10,000. When we look at the total of all credit obligations combined (except mortgage loans), 54% of consumers carry less than \$5,000 of debt. This includes all credit cards, lines of credit, and loans-everything but mortgages. Nearly 30% carry more than \$10,000 of non-mortgage-related debt as reported to the credit bureaus.

### **Total Available Credit**

The typical consumer has access to \$12,190 on all credit cards combined. More than half of all people with credit cards are using less than 30% of their total credit card limit. Just over 1 in 8 are using 80% or more of their credit card limit.

### **Length of Credit History**

The average consumer's oldest obligation is 13 years old, indicating that he or she has been managing credit for some time. In fact, we found that 1 out of 5 consumers who recently applied for credit, had credit histories of 20 years or longer. Only 1 in 20 consumers had credit histories shorter than 2 years. **Inquiries** When someone applies for a loan or a new credit card account - in short, any time one applies for credit and a lender requests a copy of the credit report - this request is noted as an "inquiry" in the applicant's credit file. The average consumer has had only one inquiry on his or her accounts within the past year. Fewer than 7% had four or more inquiries resulting from a search for new credit.

### **What is a credit inquiry?**

A credit inquiry is an item on a credit report that shows a business with a "permissible purpose" (as defined under the federal Fair Credit Reporting Act) has previously requested a copy of the report.

### **Not all inquiries count toward your FICO score.**

When you check your credit report, you may notice that a number of credit inquiries have been made, sometimes from businesses that you don't know. But the only inquiries that count toward your FICO score are the ones that result from your applications for new credit.

- **Inquiries that count toward your FICO score.**  
There is only one type of credit inquiry that counts toward your FICO score. When you apply for a mortgage, auto loan or other credit, you authorize the lender to request a copy of your credit report. These types of inquiries, prompted by your own actions, appear on your credit report and are included in your FICO score.

- **Inquiries that don't count toward your FICO score.**  
Your own credit report requests, credit checks made by businesses to offer you goods or services, or inquiries made by businesses with whom you already have a credit account do not count toward your FICO score. Credit checks by prospective employers also do not count. These types of inquiries may appear on your credit report, but they are not included in your FICO score.

### **Your FICO score is not affected when you check your credit.**

Checking your credit reports regularly to be sure they are accurate and error-free is a good idea. In fact, maintaining accurate credit reports is a part of good credit management, which can help to improve your FICO scores over time.

You can order all three of your credit reports with FICO scores at [www.myFICO.com](http://www.myFICO.com). You can also order your credit reports from the credit bureaus. Either way, your FICO score is not affected by your own credit report checks—which are voluntary.

### **How inquiries are factored into FICO scores.**

There are five types of information used to calculate a FICO score at any given point in time. Each type of information counts as a percentage of a total FICO score:

Payment history	= 35%
Amounts owed	= 30%
Length of credit history	= 15%
New credit	= 10%
Types of credit in use	= 10%

These percentages are based on the importance of the five categories for the general population. For particular groups, such as people with relatively short credit histories, the importance of the categories may differ.

Inquiries are a subset of the "new credit" category shown above, which accounts for 10% of the total FICO score. Their importance depends on the overall information in your credit report. For some people, a given factor may be more important than for someone else with a different credit history. In addition, as the information in your credit report changes, so does the importance of any factor in determining your score. What's important is the mix of information, which varies from person to person, and for any one person over time.

### **Inquiries may or may not affect your FICO score.**

A FICO score takes into account only voluntary inquiries that result from your application for credit. The information about inquiries that can be factored into your FICO score includes:

- Number of recently opened accounts, and proportion of accounts that are recently opened, by type of account.
- Number of recent credit inquiries.
- Time since recent account opening(s), by type of account.
- Time since credit inquiry(ies).

A FICO score does not take into account any involuntary inquiries made by businesses with whom you did not apply for credit, inquiries from employers, or your own requests to see your credit report.

For many people, one additional credit inquiry (voluntary and initiated by an application for credit) may not affect their FICO score at all. For others, one additional inquiry would take less than 5 points off their FICO score.

Inquiries can have a greater impact, however, if you have few accounts or a short credit history. Large numbers of inquiries also mean greater risk: 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.

### **What happens when you apply for credit.**

When you apply for credit, you authorize the lender to ask for a copy of your credit report. This is how voluntary inquiries appear on your credit report.

The inquiries section of your credit report contains a list of everyone who accessed your credit report within the last two years. The report you see lists both voluntary inquiries, spurred by your own requests for credit, and involuntary inquiries, such as when lenders order your credit report to offer you a pre-approved credit card.

### **Will my FICO score drop if I apply for new credit?**

If it does, it probably won't drop much. If you apply for several credit cards within a short period of time, multiple inquiries will appear on your report. Looking for new credit can equate with higher risk, but most credit scores are not affected by multiple inquiries from auto or mortgage lenders within a short period of time. Typically, these are treated as a single inquiry and will have little impact on the credit score.

### **What to know about "rate shopping."**

Looking for a mortgage or an auto loan may cause multiple lenders to request your credit report, even though you're only looking for one loan. To compensate for this, the score counts multiple auto or mortgage inquiries in any 14-day period as just one inquiry. In addition, the score ignores all mortgage and auto 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.

### **Improving your FICO score.**

If you need a loan, do your rate shopping within a focused period of time, such as 30 days. FICO scores distinguish 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.

Generally, people with high FICO scores consistently:

- Pay bills on time.
- Keep balances low on credit cards and other revolving credit products.
- Apply for and open new credit accounts only as needed.

Also, here are some good credit management practices that can help to raise your FICO score over time.

- Re-establish your credit history if you have had problems. Opening new accounts responsibly and paying them on time will raise your FICO score over the long term.
- Check your own credit reports regularly, and before applying for new credit, to be sure they are accurate and up-to-date. As long as you order your credit reports directly from the credit bureaus, or through an organization authorized to provide credit reports to consumers, such as myFICO®, your own inquiries will not affect your FICO score.