"Let's Talk Real Estate!"
and Robert Aldana
Presents:

FICO Facts & Fiction

Vers. 5.0 - 2015

The Truth, the Do's and Don'ts and Tips on How to Better Understand Your Credit Score

Includes:

What is a FICO Score?

How is my FICO Score determined?

How Can I improve my FICO Score?

FICO Facts & Fiction

*****NEW** INCLUDES: The Credit Impact of Foreclosures, Short Sales & Loan Modifications***

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About the Author

Born 1964 in Los Angeles, Ca., Robert now lives in Northern California with his family.

Licensed by the California Department of Real Estate since 1986, he is an active Real Estate Agent who helps people buy and sell homes everyday in addition to once being a nationally syndicated real estate journalist.

His passion is education and community outreach programs. He has been involved in, founded and has been past President of several non-profit organizations throughout his career.

Robert was the host of television and radio's "Let's Talk Real Estate!" which was broadcast throughout Northern California for 15 years. He has also been featured in many local and national real estate and finance publications throughout the years. Robert can sometimes be seen on HGTV's real estate show **"Sleep on It"** or on the NBC/ KRON television show **"The Best of The Bay".**

You can view many of Robert's videos, appearances and articles that he has been featured in at **RobertAldana.com**, or on the social networking sites of **Facebook**, **YouTube** & **Twitter** at: **/RobertAldana**

Robert has a strong appreciation for nature and is an avid outdoorsman and wildlife photographer. He can be found every weekend looking for someplace new to explore in the outdoors.

Robert prides himself on being available for one-on-one meetings with families and consumers who seek his assistance. For more information, please visit: **RobertAldana.com**

A Few Opening Notes from Robert Aldana

First of all, I want to say congratulations for taking the time to get this FREE FICO Facts & Fiction ePacket! You are already ahead of the game in many ways because you are showing an interest in learning more about FICO Scores, credit ratings and how you can make the system work for you. Whether you have some credit problems, average credit or spotless credit, it is very important that you understand the rules of the credit game and learn how to make them work for you.

Just because you have bad credit, it does not mean you can't get credit. You may not get the best interest rate, but you can get credit. Just because you have bad credit, it does not mean you can't improve your credit score. Pay your bills on time and you credit score and rating will continue to improve with time.

Also, just because you have always paid your bills on time, it does not mean that your score and rating may not be suffering because of how you use your credit. I have actually seen someone with a bankruptcy have a higher credit score than someone who has never missed a payment. Why? Because of the way they used their credit.

The fact is, many consumers don't know what their credit score and rating is until they need credit only to run around scrambling trying to fix their credit at the last minute. I read somewhere that more than half of credit reports contain errors. In addition to errors, credit fraud and identity theft is becoming more of a problem every day.

My suggestion? Check your credit report at least once a year. But pull your credit yourself through the 3 credit reporting agencies, Equifax, Transunion and Experian. I usually pull my report once every 6 months from myFICO.com and for under $40 I can also retrieve my actual credit score. You will not be penalized or have your

score affected if you pull your own credit. You are also entitled by law to get your credit report once a year at AnnualCreditReport.com. Again, it does not include your FICO score but I believe that you can pay a little extra to also get your credit score. I think that your best bet would be AnnualCreditReport.com for your annual credit checks. But please do periodically check your credit report.

**The credit score that you may receive when you pull your credit report versus a mortgage or auto finance report is usually different as they use different methods in calculating a credit score.*

What you don't want to do is pull your credit report through a mortgage broker over and over again as this could affect your score. Even though you are asking to have your score pulled by them, they are lenders and it can affect your score to have lenders pull your credit report too many times as this is a sign of you trying to obtain credit. Many lenders see this as you having financial difficulties and a sign that you are in trouble, when many times you are just trying to lower your rate.

**Having your credit report pulled several times during a 30 day period by a mortgage lender or auto finance company usually will only count as being pulled once as long as it is within a 30 day period.*

Throughout the years in this industry I have seen all types of credit reports, the good, the bad and the ugly. I also remember when FICO Scores were just an idea and then finally became one of the most powerful tools that consumers and lenders use today. But understanding FICO Scores and how they work is a science, a formula that most people and professionals don't understand. It is something that has intrigued me to the point of me attending seminars, speaking to many industry experts in the mortgage and credit reporting industry and also spending many hours reading about and learning about the FICO game and how to make it work for me and you.

The following is some great information that I received from many sources such as SouthWest Credit Reporting Services, myFICO.com, Experian, Transunion, Equifax and many other sources.

In addition to this ePacket, I have also written a COMPLETE, Step-by-Step Home Buyer Guide ePacket that contains information on how to choose an agent, a lender, what to look for in a home and the popular report "The 19 Don'ts of Home Buying".

If you are selling a property, make sure you read my FREE Home Seller Guide ePacket that includes How to choose an agent, how to get Top Dollar for your home, you can help sell your home and the dynamic report "The 31 Don'ts of Home Selling".

Get these ePackets and more real estate and mortgage information at **www.RobertAldana.com**

Building Credit - Risks and Rewards

There are many rewards for handling your credit well. It has been preached for many years that unless you can't buy it with cash, you should not buy it, but this is not always true. You may be able to improve your lifestyle through purchases that are only possible with credit, utilize services that are only available if you have a credit card – renting a car for example – and have the resources to pay for unexpected emergencies.

Maybe you need a new car or you are looking to buy a home which is not only a place to hang your hat but also proven to be one of the most solid investments of all time, unless you bought in 2006 and now need to sell in 2011. Unless you have an incredible ability to save hundreds of thousands of dollars for a home or even $15,000 – 25,000 for a new reliable car, you will at some point need credit. Credit is a vital part of today's way of living. Having and maintaining your credit rating cannot be overstated.

However, there are risks. Poorly managed credit can land you deeply in debt, and recovery is not easy. The rules of credit are few and simple. A lender extends you a line of credit. You agree to pay the lender back the amount you spend plus finance charges and perhaps additional service fees. A payment schedule is set up and you are required to make payments according to that schedule. The most important advice is, pay your bills on time!

The Real Estate Crisis & Credit

As you may be aware, the current housing crisis has thrown millions of homeowners into situations that have had an effect on their credit report. Whether you lost your home in a foreclosure, sold it as a short sale, did a loan modification with your lender or had to file for bankruptcy, your credit score has been impacted. That's the bad news. The good news is that bad credit, just like a broken heart (which sometimes go hand in hand) will heal with time.

Foreclosure – If you lost your home in a foreclosure, make no mistake about it, your credit will be impacted. You will lose about 150 points on your credit score with a foreclosure and may not be able to buy another home for 3 years.

Short Sale – A short sale is a sale of a property that has loans/mortgages on it for higher than what the property is worth. In order to sell it at today's value, the lender(s) will need to forgive a portion of the debt in order to be able to sell the home. In a short sale, the lender may report it something similar to a "charge-off" and it will impact your credit scrore about 100-150 points. <u>However, the less payments that you miss, the higher the chances are that your credit score will not be as impacted as someone who stoppped making their payments to their mortgage lender.</u>

<u>Important Update:</u> Many lenders are now reporting PAID AS AGREED on Short Sales so if you do not miss payments and do a short sale, you may be able to buy sooner then you think as lenders also get more lenient.

With a short sale, you may not be able to buy another home for 2-3 years. In some cases you can buy right away.

Loan Modification – If you are attempting to do a loan modifcation or have done one, chances are that your credit score was impacted. Why? Because in most cases, lenders will first offer you a trial loan modification which asks you to pay a reduced amount while your loan modification is being processed and although you did pay your trial mod payments on time, they were probably less than what the amount of your payment was on your original note. I know, does not seem fair, and it really isn't, but that just some of the games that many lenders play.

I was invited to meeting by FDIC where I got to meet with many lenders and government agencies to discuss the lending and housing crisis and one of the things that talked about when I was able to speak in front of these agencies was the impact that foreclosures and short sales had on people's credit report.

<u>My logic was this:</u> Picture the numbers 1 through 10. One is optimal credit, the best you can have, and of course 10 is the worst you can have. A 10 would be a bankruptcy. A 9 would be a foreclosure. A 3-4 would be a short sale, but for every payment that you missed on that short sale, it got you closer to a 9. My reasoning was that someone who does a short sale on their home could have it affect their credit score, but not as much as a foreclosure. And if the consumer does not miss any payments during the short sale process, their credit score is affected less, if at all.

When I brought this scenario and theory if you will, to the entire group, they all stated that it was pretty much right on the money! Having said that, I feel confident that you can rely on the above information to determine possible credit consequences of any of the above scenarios. With a loan modification, every month that you are in a trial mod, your credit score continues to suffer in most cases.

All of the above scenarios are less impacted if you maintain on-time payments with the rest of your debt obligations. Many people do not understand that having one bad credit file with 6 really good ones negatively impacts your credit score less than having all of your credit obligations delinquent. And, although your credit score will be impacted with the above scenarios, after one year it affects you less and after 2 years it does not affect you as much in regards to your credit score, that is of course if you maintain other good credit habits.

Let me also say that a foreclosure, short sale and loan modification can also have certain legal and tax consequences and I advise you to seek the advice of a CPA or attorney prior to making any decisions.

For more information, articles, videos and podcasts on foreclosures, short sales and loan modifications, please visit **RobertAldana.com**

Types of credit available

Revolving credit: Most credit cards are a form of revolving credit. This simply means you are given a maximum credit limit and you can make charges against that limit, carrying a balance and making payments each month.

Charge cards: While they often look like revolving credit cards and are used the same way, charge accounts differ in that you must pay the total balance each month.

Service credit: Often overlooked, your agreements with service providers are all credit arrangements. You receive goods (natural gas, electricity) or services (apartment rental, cellular phone use, health club memberships) with the agreement that you will pay for them each month just as you would with any other form of credit. Your contract may require payments for a specified number of months, even if you stop using the service. Your accounts with service providers and the associated payment history are appearing more commonly on credit reports. Unpaid bills are almost always reported when the account is turned over to a collection agency.

Installment credit: Car loans and mortgages are two examples. Installment credit is among the most common and easily understood. A creditor loans you a specific sum of money and you agree to repay the money and interest in regular installments of a fixed amount over a set period of time, usually measured in months or years.

Using Credit

Getting your first line of credit sometimes can be challenging. Without a credit history, or with a serious blemish like bankruptcy, lenders may be reluctant to extend you credit. You may want to talk to a local department store or bank. Ask if they will open a line of credit for you, for perhaps only $200 or $300.

It may be necessary to have a parent or friend with a strong credit history cosign for you. If a person cosigns on your behalf, they are accepting equal responsibility for the loan or credit line. Without someone to cosign, you may need to begin with a secured line of credit. To do so, you must open an account with a bank or other lending institution. In turn, you will receive a line of credit with a limit equal to a percentage of your bank account balance. Often, this type of credit has higher interest rates and fees, but it may be a good way to get your first credit card.

Tips for Using Credit

When you are extended a line of credit, use it, but use it carefully. Be certain your account is reported to a credit reporting agency. Most importantly, make your payments on time.

- Set up a budget and stick to it. You need to be aware of how much debt you already have and how much you are adding to that debt by buying with credit.
- Shop around for credit. Lower interest rates, lower or no annual fees, cheaper service charges and additional benefits such as frequent flyer miles or special insurance rates are available. Find the credit that is right for you.
- Once you have signed a credit agreement, you are responsible for it unless the creditor agrees to release you from the agreement. That not only includes credit cards or installment loans, but also health club agreements and cellular telephone contracts, even if you stop using the service. Remember also that a divorce decree does not release you from responsibility for joint accounts.

- Protect yourself from credit fraud. Treat your credit cards like cash. Sign them as soon as you get them. Don't leave them lying around. Shred receipts that have your account number on them and do the same with credit offers you receive in the mail but choose not to accept.

Credit scores & why lenders use them

Before credit scores, lenders physically looked over each applicant's credit report to determine whether to grant credit. A lender might deny credit based on a subjective judgment that a consumer already held too much debt, or had too many recent late payments. Not only was this time consuming, but also human judgment was prone to mistakes and bias. Lenders used personal opinion to make a decision about an applicant that may have had little bearing on the applicant's ability to repay debt. So the same borrower could look different with the exact information on their file to 3 different underwriters and sometimes borrowers were at the mercy of hoping that they had a fair thinking underwriter.

In the late 90's, FICO® Credit Scores were introduced to the public and began to be used on most mortgage underwriting procedures.

Credit scores help lenders assess risk more fairly because they are consistent and objective. Consumers also benefit from this method. No matter who you are as a person, your credit score only reflects your likelihood to repay debt responsibly, based on your past credit history and current credit status.

But credit scores are not only used by lenders when you are buying a home. Credit for cars, credit cards, appliances and many insurance companies and employers base much of their judgment on your credit score. Renting a home? Of course your credit score will be examined!

What's a FICO® score?

Your FICO score is the numeric representation of your financial responsibility, based on your credit history. Based on a scale of 300 - 850, there are three FICO scores - one from each national credit bureau. These three FICO scores are the measure that most lenders will look at when evaluating your credit or loan applications.

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

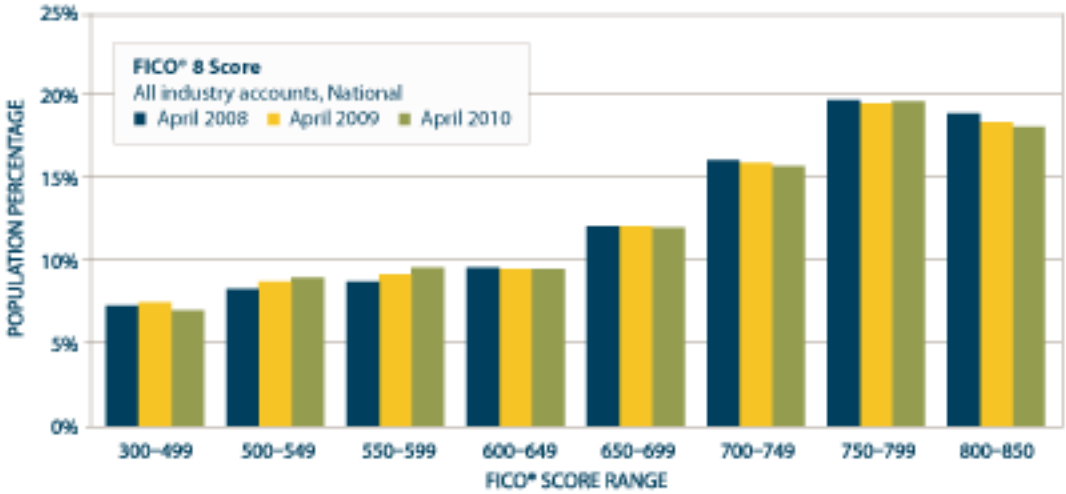
Credit bureau scores are often called "FICO scores" because most credit bureau scores used in the US are produced from software developed by Fair Isaac and Company. FICO scores are provided to lenders by the three major credit reporting agencies: Equifax, Experian and TransUnion.

The current state of the economy has affected millions of consumers throughout the country. No doubt it has had a global effect, but for the purpose of discussing FICO scores, we will discuss issues affecting American consumers.

A comparison of nationwide FICO® Scores from 2008, 2009 and 2010 indicates that consumer credit risk has increased over the past two years. The distribution of FICO Scores drifted down slightly on FICO's 300-850® score range and score performance shifted in response to changing economic conditions.

On the high end of the FICO® Score range, nearly 19 percent of consumers had scores between 800-850 in April 2008. That figure dropped to less than 18 percent by April 2010. On the lower portion of the FICO Score range, approximately eight percent of consumers had FICO Scores between 500-549 in April 2008. That percentage climbed to nine percent in April 2010.

FICO® Score Distribution



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. However you can now see what interest rates lenders typically offer consumers based on FICO score ranges.

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	BEACON®
Experian	Experian/Fair Isaac Risk Model
TransUnion	EMPIRICA®

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.

What lenders generally use is the middle score using all 3 credit reporting agencies. Not the average score, but the middle score. For example, if you have 3 scores as most consumers do, and the scores are 660, 663 and 700, your middle score would be 663 and NOT 680 which would represent the “average” score. Any one of the 3 credit reporting agencies can have the lower, middle or high score because not all creditors report to all 3 credit reporting agencies that can affect your credit score.

There are times when only 2 credit reporting agencies have enough information about your credit history to give you a score and you only have 2 scores. When this happens, lenders will generally use the lower score.

In addition, when you are buying a property with someone else such as a spouse, friend or any other co-signor, lenders will usually use the middle score of the primary wage earner which is the person who earns the most of all parties qualifying for a loan.

Some more notes:

- **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.

How Scoring Helps You

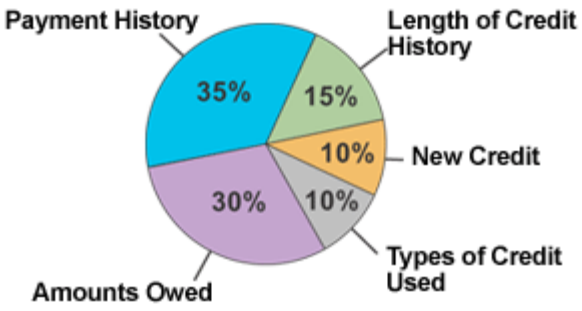
Credit scores give lenders a fast, objective measurement of your credit risk. Before the use of scoring, the credit granting process could be slow, inconsistent and unfairly biased.

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.

What’s in Your Score & what is used to Calculate it

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.

Let's break it down:

Payment History

- 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

- 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

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

New Credit

- 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

- 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 used to Calculate Your Score

FICO scores consider a wide range of information on your credit report. Some of the following items may be in your credit report but they are not a factor in determining your score.

- **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.** As I write this booklet, there is talk about placing rental payment history on credit reports which could help many who pay their rent on time. I am not sure if this will happen for many reasons including getting landlords to participate and report rents
- **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.**

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. See how much money you can save by just following these tips and 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. Let me also say that try and work directly with creditors before you use the services of a consumer credit counseling service. While using them may not affect your score directly, I have been told by many lenders that they see this as the last step prior to a consumer filing for Bankruptcy and it throws “red flags” everywhere!

Amounts Owed Tips

- **Keep balances low on credit cards and other "revolving credit".** High outstanding debt can affect a score. Try and maintain a balance of less then 30% of the credit limit.
- **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. This gives the appearance that you could be in desperate need of credit and could be a sign of finance problems.

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. It’s not just OK, but I recommend it!

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. This is why lenders always lend money to those who owe money versus those who have never borrowed money and have little or no credit experience or history from which to determine their ability to pay back a loan.
- **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.

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.

What's In Your Report

Although each credit reporting agency formats and reports this information differently, all credit reports contain basically the same categories of information. Your social security number, date of birth and employment information are used to identify you. These factors are **not** used in scoring. Updates to this information come from information you supply to lenders.

- **Identifying Information.** Your name, address, Social Security number, date of birth and employment information are used to identify you. These factors are not used in scoring. Updates to this information come from information you supply to lenders.
- **Trade Lines.** These are your credit accounts. Lenders report on each account you have established with them. They report the type of account (bankcard, auto loan, mortgage, etc), the date you opened the account, your credit limit or loan amount, the account balance and your payment history.
- **Inquiries.** 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 credit report. The inquiries section 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" inquires, such as when lenders order your report so as to make you a pre-approved credit offer in the mail.
- **Public Record and Collection Items.** Credit reporting agencies also collect public record information from state and county courts, and information on overdue debt from collection agencies. Public record information includes bankruptcies, foreclosures, suits, wage attachments, liens and judgments.

How Mistakes Are Made

When a credit report contains errors, it is often because the report is incomplete, or contains information about someone else. This typically happens because

- The person applied for credit under different names (Robert Jones, Bob Jones, etc.).

- Someone made a clerical error in reading or entering name or address information from a hand-written application.
- The person gave an inaccurate Social Security number, or the number was misread by the lender.
- Loan or credit card payments were inadvertently applied to the wrong account.

Checking Your Report

You should make sure the information in your credit report is correct. I really believe in this. 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. As I mentioned, your score will NOT be affected when you check your own credit report. To request a copy, contact the credit reporting agencies directly:

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

If you find an error, the credit reporting agency must investigate and respond to you within 30 days. 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.

What is Credit Fraud?

In a country where consumers owe more than $1 trillion on their credit cards, estimates of $2 billion to $3 billion in credit card fraud losses may not seem all that terrible. That comes out to just two to three one-thousandths of one percent. But it is terrible to victims of fraud. Though they may be protected financially, they are forced to endure major inconvenience. Additionally, we all pay for the costs of fraud in the form of higher prices, higher interest rates and increased inconvenience.

There is no single definition of fraud, but some types of credit fraud that occur include:

- Identity theft: the unauthorized use of personal identification information to commit fraud or other crimes
- Identity assumption: long-term victimization of identification information
- Fraud spree: unauthorized charges on existing accounts

Sources of fraud
Just as there are various types of credit fraud, there are also different ways that credit thieves gather your personal information:

- Using lost or stolen credit cards
- Stealing from your mailbox
- Looking over your shoulder
- Going through your trash
- Sending unsolicited email
- False telephone solicitation
- Looking at personnel records

Discovering fraud
There are several warning signs that credit fraud may be occurring:

- Your credit report contains inquiries or information about accounts that you did not open
- Strange charges show up on billing statements
- Bills arrive from unknown or unfamiliar sources
- You receive calls from creditors or collection agencies

Fraud Prevention - Suggestions for victims
If you believe you are a victim of fraud, you may find the following suggestions helpful:

- Protect yourself: A 90-day security alert gives you time to verify if you are a victim of fraud. If you determine you are a fraud victim, you may add a 7-year victim statement to your credit report.
- Inform creditors: Contact each creditor with the fraud account and inform them that the account is fraudulent.
- Document all contacts: Make notes of everyone you speak with; ask for names, department names, phone extensions and record the date you speak with them.
- Understand the process: Each creditor may have a different process for handling a fraud claim. Make sure you understand exactly what is expected from you, and then ask what you can expect from the creditor. At the conclusion of an investigation, ask the creditor for a document that states you are not responsible for the debt.
- Follow up: Make sure everything a creditor/credit reporting agency has requested is received. It is always a good idea to place a follow up call or send a letter for confirmation.
- Review reports regularly: Obtain another report several months after you believe everything is cleared up. If a new fraudulent account is discovered, you know how to handle it. If your credit report is back to normal, you can feel confident that all issues were resolved as you expected. It would be a good idea to check your credit report again in six months and a year later.
- Don't throw away files: Keep all notes and correspondence in an accessible file in case they are needed in the future.

Fraud Victim Assistance Process
If you have reason to believe that you are a victim of fraud, the credit reporting agencies can assist you in your efforts to protect your credit.

Step 1: Consumer contacts the credit reporting agencies and alerts them of the possible fraud right away

- A 90-day security alert is immediately added to the consumer's credit file. This alerts creditors to confirm the consumer's identity before extending credit.
- The consumer's name is removed from prescreened credit solicitation lists as an additional precaution.
- The consumer is provided a complimentary consumer report.

Step 2: Consumer receives reports

- The consumer reviews his or her consumer disclosure for fraudulent data and calls a special telephone number listed on the credit report to speak with a credit reporting agency consumer assistance associate specially trained in fraud victim assistance.
- Together, the consumer and the consumer assistance associate identify fraudulent items. Some items are removed immediately; others must be investigated and verified.

Step 3: Investigation begins

Credit reporting agencies verify the information that the consumer alleges as fraudulent with the creditors or data furnishers.

- Upon receipt of a valid police report, agencies block alleged fraudulent information from view by creditors and other users of the report. This allows a victim to continue to be credit active without being penalized for any fraudulent information on his or her report.
- Agencies employ special system procedures and matching criteria to ensure that fraudulent data is removed as soon as possible.

Step 4: Fraudulent data is removed

Credit reporting agencies must complete an investigation within 30 days. If the data contributor cannot verify information as accurate within the statutory deadlines, their systems are designed to delete or update the information.

For more information on identity theft, visit:
www.consumer.gov
www.ftc.gov
www.privacyrights.org

For more information on avoiding credit and charge card fraud, visit: www.ftc.gov

For more information on what to do if your credit and ATM cards are lost or stolen, visit: www.ftc.gov

For information on how to get help with credit problems, visit: www.nfcc.org

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

As a company that helps the nation's largest banks and financial institutions assess credit risk, 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.

These statistics I feel are important because FICO Scores are based on averages of all types from consumers. These averages are used in determining your credit score and where you rank in terms of repaying your loan versus other consumers, so it stands to reason that you want to know the rules of the game to make the game work for you.

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.

Credit Inquiries

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 own 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. 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.

I always order my credit report every few months from myFICO.com and pay for the 3 credit reports from the credit reporting agencies, Experian, Equifax & Transunion from myFICO.com. I always pay for all 3 scores too. It keeps me on top of my credit report and anytime I notice some incorrect information I deal with it immediately. I think once or twice a year is good enough unless you are like me where I check it every quarter or so. I may be a little extreme but I have a handle on my credit report and credit rating.

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.

More on 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.

Personal Events

Marriage

Managing your credit can be tricky, even when you're the only person involved in your financial decisions. Add a new spouse to the mix, and you have to be extra careful to ensure your credit remains in good standing.

For many engaged couples, talking about finances takes a back seat to the excitement of wedding planning. But, before saying "I do," you need to be aware of the credit issues that could arise with a new marriage.

First of all, both you and your spouse should put all your financial records – savings, salaries, investments, real estate, and especially credit – on the table. If one of you has a less-than-glowing credit history, it will affect the other

as soon as you start applying for credit together and opening joint accounts. In addition, your new joint accounts will appear on both spouses' credit reports in the future, so be sure to pay careful attention to your bills and pay them on time.

Once you've aired your credit laundry, you'll need to decide whether or not to merge all of your financial accounts. Many couples do this because consolidated accounts often make for easier record keeping. Just remember, both of you are responsible for all debt incurred in any joint credit accounts. So, regardless of who's incurring debt, a missed payment on a joint account will negatively affect both of your records. The same is true in community property states, where virtually any debt entered into during marriage is automatically considered joint. Consider also if you miss a payment on an individual account, that payment may very well impact your ability to open joint accounts because both credit histories will be considered.

The best way to keep your record clean starts with a solid understanding of the terms of your joint accounts. That means paying attention to interest rates, credit limits, annual or late payment fees and cash advance limits. If you decide to consolidate your accounts, you might want to keep at least one credit account in your own name as a safeguard in the event of an emergency. Keeping an individual account can also be a good thing in the event of divorce to reestablish an individual credit history.

Women who take their husband's surname after getting married need to notify the Social Security Administration and their current creditors of this change. You do not need to notify the credit reporting agencies of a name change. They will automatically update the name on a credit report when creditors report it.

The key to successful credit management as a couple is understanding that your individual credit behavior affects both you and your partner. To ensure that you are able to quickly get credit at the best possible terms, be sure you both understand all the implications that accompany a joint account. In addition, consider how the payments stemming from a major credit purchase will affect your overall budget.

Divorce
With divorce and separation come new experiences and responsibilities. Suddenly words like "child support payments" and "100 percent liable for bills" enter the picture. If you ignore your increased financial obligations or fail to separate your accounts, it may be hard to open new accounts and obtain new loans in your name. But there are many moves you can make to protect and restore the good credit that took years to build.

Get your credit report
Before you begin, get an idea of what your credit report looks like. Get your credit report **and** score.

Protect your good credit
Your divorce decree does not relieve you from joint debts you incurred while married. You are responsible for joint accounts, from credit cards and car loans to home mortgages. Even when a divorce judge orders your ex-spouse to pay a certain bill, you're still legally responsible for making sure it is paid because you promised – both as a couple and as individuals – to do so.

The credit grantor (a bank, credit card issuer, mortgage company or other credit-lending business) also has a legal right to report negative information to a credit reporting agency if your ex-spouse pays late on a joint account. If your ex-spouse doesn't pay at all, you'll probably have to pay – or the grantor can take legal action against you.

- Close or separate joint accounts. If you can talk to your ex-spouse, you can save a lot of grief. Analyze all your debts and decide who should be responsible for each. Call your creditors and ask them how to transfer your joint accounts to the person who is solely responsible for payments. However, you still might have legal responsibility to pay existing balances unless the creditor agrees to release you from the debt.
- Take stock of your properties. You may have to refinance your home to get one name off the mortgage. Or you might need to sell your home and divide the proceeds.
- Keep paying all bills. Until you can separate your accounts, neither of you can afford to miss a turn paying bills. During divorce negotiations, send in at least the minimum payment due on all joint bills. Miss even one payment and it stays on your credit profile for up to seven years, making it hard to obtain new credit in your own name. Beware of well-meaning friends and relatives who may tell you to ignore making payments or to run up debts. Always make all payments with at least the minimum due.

Establish credit independently
Start small and build up. Get a credit card that has a small credit limit, perhaps from a local department store or financial institution. Then always pay your bills on time so your credit history will be excellent. After six months, apply for another card and continue paying bills consistently. Don't run your debt up beyond what you can afford to pay. It's a winning strategy that's easy to master.

Ask a family member or friend to cosign. Perhaps a relative or friend with an established credit history can cosign your loan or credit application – provided you repay that cosigned debt on time. Remember, any transaction also will show up on the cosigner's credit profile. After a few months, try again to get credit on your own.

Consider applying for a secured credit card. You must open and maintain a savings account as security for your line of credit. Your credit line is a percentage of your deposit. Beware of the extra fees you may have to pay for secured credit.

Rebuild positive credit history
You can pick up your pieces and start fresh with a positive credit report – if you pay your bills on time. After all, your credit profile is always evolving.

- Your recent bill-paying pattern is critical. Your behavior (during the next 18-24 months) is most important in deciding whether you're a good credit risk. Even one late payment can affect your ability to get a mortgage.
- Help is available if you're having difficulty paying bills. The nonprofit National Foundation for Credit Counseling (NFCC), 1 800 388 2227, can help you establish a budget and repay creditors. Other organizations offer quality credit counseling as well. Be sure the organization you work with is non-profit and provides budgeting and financial management training in addition to any debt management plan, and does so at little or no cost. Be very cautious of any organization that claims it can provide a quick fix to your credit problems, provides you with no financial management education, or that charges substantial fees for its services.

Bankruptcy is a last resort
Bankruptcy should be the last move to make if you get in over your head.

- It's not an easy way out. Filing for bankruptcy is no guarantee that it will be granted because a court judgment must be made. Even if all you do is file your bankruptcy papers with the court, it gets reported on your credit profile.
- Not all debts are included in bankruptcy. Things like alimony, child support, student loans and taxes secured by liens still must be paid consistently.
- Bankruptcy remains on your credit history up to 10 years. While a declaration of bankruptcy removes many debts, any reference to filing, dismissal or discharge still appears on your credit history for up to 10 years. During this time, you'll find it more difficult if not impossible to get a new mortgage, personal loan or a credit card.

Consider mediation
Mediation can make things much fairer by helping you and your ex-spouse work out a reasonable and equitable divorce agreement. If you'd like help finding a mediator, contact the American Arbitration Association. To locate an attorney, check with your state or local Bar Association.

Death of a spouse
If you've lost a spouse, you're already going through one of the most emotionally draining experiences possible. When a loved one dies, there are also numerous financial matters to deal with, including credit and debt issues. There are, however, some simple steps you can take now to help down the road.

Stabilizing your credit in the event of a death can be difficult, especially if your spouse held all of the credit in his or her name. Keep in mind that in community property states, credit accounts opened during marriage are automatically joint. That means you are still responsible for any debt that your deceased spouse incurred.

By law, a creditor cannot automatically close a joint account or change the terms because of the death of one spouse. Generally, the creditor will ask the survivor to file a new credit application in his or her own name. After reviewing the new information, the creditor will then decide to continue to extend credit or alter the credit limit. You might want to open a new credit account in your name. In doing so, keep in mind that you must use your name only when applying. Including your deceased spouse's name will result in a joint account. Experian automatically updates its records with periodic reports from the Social Security Administration. When the update is made, your spouse's credit history will be flagged to show that he or she has passed away and their name will be removed from any preapproved credit offer mailing lists.

Employment and Credit

What you should know
Federal law allows potential and current employers to view a modified version of your credit report for employment purposes such as hiring and promoting.

This employment report includes much of the information about your loans and credit cards that is listed in your credit report. To protect your financial security and meet equal employment opportunity laws, all Experian employment reports omit your account numbers, year of birth and spouse references.

Traditionally, the biggest users of credit reports for employment purposes are companies in the defense, chemical, pharmaceutical and financial services industries because of the sensitive positions many of their employees hold. Increasingly, other industries use the reports to serve as a general indicator of an applicant's financial honesty and personal integrity.

The report, however, does not tell a potential employer whether to hire or promote an applicant. An employment report typically is used in addition to application information, references or skills testing to help employers make the best, most objective hiring decision.

Consumer protections
Recognizing the sensitive nature of employment reports, legislators enacted several consumer protections. Among them:

- Federal law prohibits anyone from accessing an employment report without first obtaining written permission from the consumer.
- If the employment report plays any part in a decision that negatively impacts the consumer, federal law requires the company to give the consumer a copy of the report along with a written description of the consumer's rights.

In addition to state and federal requirements, Experian instituted several policies to protect consumer privacy and ensure accuracy, including:

- Experian strongly recommends to employers that they not deny employment solely on the basis of an employment report.
- If the employment report contains information that causes a potential employer concern, Experian encourages the employer to give the applicant an opportunity to clarify the issue.

When an employer obtains a copy of an employment report, that access is not shown on future credit or employment reports except when an applicant obtains his or her own report directly from Experian. This protects consumer privacy because other employers or credit grantors will not be informed about job-related activities. In addition, inquiries for employment purposes do not affect creditworthiness or credit risk scores because they are not shown to lenders. (Information about employer access is located in the "Requests for your credit history" section of the consumer credit report. It remains on the file for two years.

FICO Facts & Fiction

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. Lenders also look at other things such as equity, income and savings. You can even get a mortgage loan a day after your bankruptcy is discharged as long as there is enough equity. Of course, the lower your score, the higher your rate will be. But pay your bills on time and in very little time your score will improve.

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.

Glossary

Application scoring - The use of a statistical model to objectively evaluate and "score" credit applications and credit bureau data in order to assess likely future performance. Scores help businesses make decisions such as whether to accept or decline the application.

Bankruptcy - A proceeding in U.S. Bankruptcy Court that may legally release a person from repaying debts owed. Credit reports normally include bankruptcies for up to 10 years.

Charge-off - The balance on a credit obligation that a lender no longer expects to be repaid and writes off as a bad debt.

Collection - Attempted recovery of a past-due credit obligation by a collection department or agency.

Consumer credit file - A credit bureau record on a given individual. It may include: consumer name, address, Social Security number, credit history, inquiries, collection records, and public records such as bankruptcy filings and tax liens.

Credit bureau - A credit reporting agency that is a clearinghouse for information on the credit rating of individuals or firms. Is often called a "credit repository" or a "consumer reporting agency". The three largest credit bureaus in the U.S. are Equifax, Experian and TransUnion.

Credit bureau risk score - A type of credit score based solely on data stored at the major credit bureaus. It offers a snapshot of a consumer's credit risk at a particular point in time, and rates the likelihood that the consumer will repay debts as agreed.

Credit history - A record of how a consumer has repaid credit obligations in the past.

Credit obligation - An agreement by which a person is legally bound to pay back borrowed money or used credit.

Credit report - Information communicated by a credit reporting agency that bears on a consumer's credit standing. Most credit reports include: consumer name, address, credit history, inquiries, collection records, and any public records such as bankruptcy filings and tax liens.

Credit risk - The likelihood that an individual will pay his or her credit obligations as agreed. Borrowers who are more likely to pay as agreed pose less risk to creditors and lenders.

Credit score - This term is often used to refer to credit bureau risk scores. It broadly refers to a number generated by a statistical model which is used to objectively evaluate information that pertains to making a credit decision.

Default - A failure to make a loan or debt payment when due. 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. Accounts are often referred to as 30, 60, 90 or 120 days delinquent because most lenders have monthly payment cycles.

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.

FICO® scores - Credit bureau risk scores produced from models developed by Fair Isaac Corporation are commonly known as FICO scores. Fair Isaac credit bureau scores are 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. These scores are derived solely from the information available on credit bureau reports.

Inquiry - An item on a consumer's credit report that shows that someone with a "permissible purpose" (under FCRA rules) has previously requested a copy of the consumer's report. Fair Isaac credit bureau risk scores take into account only inquiries resulting from a consumer's application for credit.

Installment debt - Debt to be paid at regular times over a specified period. Examples of installment debt include most mortgage and auto loans.

Insurance bureau score - An insurance rating based solely on credit bureau data stored at the major credit bureaus. It offers a snapshot of an individual's insurance risk at a particular point in time, and helps insurers evaluate new and renewal auto and homeowner insurance policies.

Late payment - A delinquent payment; a failure to deliver a loan or debt payment on or before the time agreed.

Revolving debt - Debt owed on an account that the borrower can repeatedly use and pay back without having to reapply every time credit is used. Credit cards are the most common type of revolving account.

Score - See "credit score".

Scoring model - A statistical formula that is used, usually with the help of computers, to estimate future performance of prospective borrowers and existing customers. A scoring model calculates scores based on data such as information on a consumer's credit report.