Certified Credit Score Consultant Training Manual

Learn how to start and operate a successful credit restoration company and become certified

By The Credit Consultants Association, Inc.

ccasite.org

The Credit Score Consultant Certification Manual

Prepared By

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Contents

Introduction

This manual is **FREE** to ALL Credit Consultants Association members and will never be sold or available. It is designed to prepare members for the certified credit score consultant designation. Only those who have become certified via the Credit Consultants Association, Inc. can have this credential. You will find repetitive and overlapping information within this manual and the CCA's training manual. It was compiled from various sources form FICO, CRAs, Government sources and many others. However, it is designed to make sure you understand the materials in increasing credit scores and understanding how credit scores work...

Credit Scores and Regulation

In the 1950s, Bill Fair, an engineer, and Earl Isaac, a mathematician, created an automated scoring system that was initially a flop. They continued to refine it and continued to use technology and computers to build what became the FICO score. They sold their credit scoring idea to banks and retailers in the United States and around the world.

The Fair Credit Reporting Act, passed in 1970, created a regulated system regarding what information would be collected, what could be reported and for how long, and how consumers could obtain copies of their credit reports. Data became more standardized and led to enhanced accuracy.

The Histories of Credit Bureaus

The credit bureaus themselves have interesting histories. Equifax, originally called Retail Credit Company, was founded in 1899 in Atlanta by brothers Cator and Guy Woolford. The Woolfords would keep a list of creditworthy customers and compile their findings, which they would then sell. In many communities, representatives of the "Welcome Wagon" would take note of a person's home, furnishings and character, among other factors. They would then report that information back to Equifax.

Experian is the newest credit bureau, buying out the famous TRW Information Services, which was the largest credit bureau at the time. In the 1970s and 1980s, one would say, "Let me pull their TRW." TRW itself was part of a defense conglomerate.

TransUnion began as a railroad car leasing company. It acquired a credit bureau in 1969. Back then, without computers, data was stored on index cards. The credit bureau that TransUnion purchased had stuffed more than 3.6 million such cards into more than 400 filing cabinets.

What Is Credit And
Why Is It So Important?

Why does your credit score matter? Quite simply, the higher your score, the easier it will be for you to qualify for larger amounts of credit at lower interest rates.

DO THE MATH!

Let's say you need to borrow $200,000 to buy the home of your dreams. If you qualify for a home loan at a 4% interest rate, to be paid off over the standard 30 year period, you'll end up paying about $143,000 in interest. If your credit score is lower and the best interest rate you can get is 5%, you'll end up paying $186,000 in interest…about $43,000 more!

In this course you'll learn about how credit scores are calculated, what those scores mean, and how you can build and maintain a great score.

What Is FICO?

If you don't know what a FICO score is, don't feel bad: you're in good company – most Americans don't know either.

Your FICO score is actually just another way to say credit score, named after Fair, Isaac and Company, the first nationally-known credit rating agency.

Right now, there are three big players in the credit rating game: Equifax, Transunion and Experian.

How Does It Work?

Every time you apply for credit or a loan, or make payments on credit cards and loans, you're building a credit history that is logged by the "Big Three." They all track the same data:

1. The number of times you request credit.
2. The number of accounts you open and close.
3. Your payment history.
4. The amount of credit debt you have.
5. The total amount of credit available to you.

All of this information is crunched into what is known as your FICO score—which will follow you around from the first time you use a credit card, to the day you make your last mortgage payment and head off to retire with your surfboard on the beach in Hawaii.

The higher your FICO score, the easier it will be for you to qualify for the credit you want, at the best interest rates

Did you know…

Over 75 percent of mortgage lenders and 80 percent of the largest financial institutions use FICO scores in their evaluation and approvals process for credit.

How Is Your Score Determined?

How do Credit Monitoring Agencies Determine Your Score?

Credit monitoring agencies use a very simple five-part formula to arrive at your credit score. Here it is:

1. Thirty-five percent of your FICO score is determined by your **payment history**. On-time payments build your score. Late payments hurt.
2. Thirty percent of your FICO score is determined by **comparing the amount you owe, to the amount of credit you have available**. Lenders are wary of people using too much credit, as statistics show they're more likely to miss payments.
3. Fifteen percent of your FICO score is based on the **length of your credit history**. There's a myth that having too many accounts can hurt your credit score. In fact, it's more important to keep your accounts open.
4. Ten percent of your FICO score is determined by the **number of new accounts** you open. Opening a new account temporarily lowers your credit score for 12 months.
5. Ten percent of your FICO score is based on the **type of credit you use**. Lenders like to see a mix of card accounts, because statistics have shown that having too many accounts of the same type slightly increases the risk of a person not being able to make timely payments.

What Does Your Credit Score Mean?

Each credit scoring agency uses slightly different formulas for arriving at your credit score, but all three uses a score ranging in value from 350 – 850, which can change monthly based on your credit activity.

You've probably heard the terms "good credit," "average credit," and of course the dreaded label "bad credit." The average credit score in the U.S. is around 675.

Although there aren't any hard and fast rules, here's how lenders generally look at your scores:

- A credit score of **720 or more** means you have excellent credit, and should have little trouble qualifying for loans and other credit-related products.
- A credit score between **680-719** means you have good credit and probably won't have too many loan or credit-qualifying issues, but may not qualify for the best available interest rates.
- A credit score between **620-679** will prompt most lenders to take a closer look at how you've handled your past credit use and your overall financial health. But you may still have a pretty good chance of qualifying for the credit you want.
- Scores between **570-619** are considered higher risk, and will immediately take you out of the running for some types of loans.
- Any credit score **below 570** will seriously limit your ability to access loans and credit.

Not only does your credit score effect your ability to get credit and loans, it also can impact the interest rates you pay.

Why Do You Pay More Interest When Your Credit Score Goes Down?

For lenders, the name of the game is risk. If it's riskier for a company to lend you money based on your credit history, they're going to charge you a higher interest rate to offset the higher risk—or be less likely to give you any credit to begin with.

For example, if the colonist we mentioned at the beginning of this course borrows a bushel of seed from his fellow colonist, but only pays back half of what he owes, the lender wouldn't have as much incentive to give the farmer more credit—but he might be more inclined to take the risk for a bigger interest pay-off.

Boosting Credit Score

Before you sprint into the credit race, first take a step back and form a spending plan or budget based on your income and fixed living expenses. Late payments are the single-most common factor that hurts credit scores! **Be prepared to make all your credit card payments on time** and try to **automate regular monthly payments** so you don't miss any.

The ratio of credit you use to available credit is just as important as your on-time payment history. If unpaid balances are more than 30 – 35 % of your available credit, that can lower your credit rating. **Don't carry large revolving balances on credit card accounts.** Ideally, try to zero out the balance at the end of each payment period so you don't pay interest.

Length of your credit history accounts for the next biggest piece of your FICO score. The longer you've held an account in good standing, the better that is for your credit score. To credit agencies, new accounts imply that you need credit. That lowers your credit rating over the short-term — for 12 months from the time you open a new account — as well as the average age of your credit card accounts. **Keep existing credit card accounts open!**

Because lenders like to see a mix of card accounts, rather than one or two large revolving general-use credit card accounts, **keep a good mix of accounts**, including general credit, store credit and loans.

Mixing it up!

Credit rating agencies divided account types into three major categories:

Revolving accounts, which include all basic credit card accounts, both general and store cards along with home equity lines of credit.

Installment accounts, which include auto, mortgage, home equity and student loans.

Open accounts, which included home utility, internet, cable, and cell phone service accounts.

Remember that once you start using credit cards, you're beginning the lifelong journey of compiling your FICO credit score. Make sure you lay down a strong foundation: that way your "house of credit" will increase in value and stand the test of time.

Your Rights When They're Wrong

Everybody makes mistakes, and sometimes computers do too. Because of how important credit scores have become, there are laws that govern how companies can use your scores, and giving consumers very specific rights when they get your information wrong.

Know your rights!

- All credit ratings companies are required by law to provide you with the information they base your credit rating on when you request it.
- All credit companies are required by law to provide you with one copy of your credit report for free once a year. You're also entitled to a free copy of your credit report any time you're denied credit.
- You must be told if information in your file has been used against you.
- You have the right to dispute incomplete or inaccurate information.
- Consumer reporting agencies must correct or delete inaccurate, incomplete, or unverifiable information—usually within 30 days.
- Access to your file is limited.

Your credit rating can have lifelong implications—affecting everything from how easily you can buy a house or car, the kinds of interest rates you qualify for, and in some states even whether or not you get a job*.* In the end, it's up to you to build and protect your good credit score, so **request a report once a year!**

Stop, Thief!

One reason to actively monitor your credit reports is to protect yourself against one of the biggest threats to everyone's credit history: identity theft.

In response to the rising tide of identity theft, consumers in all 50 states now have the right to place a "fraud alert" through the big three credit bureaus. Regardless of whether you have been the victim of identity theft, the 90-day fraud alert tells anyone checking your credit that you are a victim of fraud.

You can also control who has access to your credit report by requesting a "credit freeze." Just contact each credit reporting bureau separately and follow their credit freeze rules. Then no one can access your credit files without your permission.

NOTE: Congress passed the Fair Credit Reporting Act (FCRA) in 1970. That bill regulates how companies can collect and use information they've gathered about your credit history.

Where To Get More Information

Credit scores and credit reporting have become such a big business, that dozens of companies have sprung up to provide consumers with the information you need to build a strong credit score and keep it that way.

The U.S. government provides you with a nice summary of your legal rights when it comes to credit reporting. You can find it here:

http://www.consumer.ftc.gov/articles/pdf-0096-fair-credit-reporting-act.pdf

Now that you have a basic handle on what credit scores mean, and how to build up your score, go to the websites of any of the Big Three credit reporting companies and order a **free copy of your report.**

When you get it, use the information you learned in this mission to take start building a better credit score!

ONE FREE CREDIT REPORT EVERY YEAR

Under the Fair and Accurate Transaction (FACT) Act, at your request, Equifax, and each of the other 2 major credit reporting agencies, Experian and TransUnion, will provide you with one free credit report every 12 months.

To request your free report:

- Visit *annualcreditreport.com*
- Call 1-877-322-8228
- Complete the *Annual Credit Report Request Form* and mail it to: ***Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281***

There was a time when a credit score of 680 was required for the best of everything. That has now been increased to 720. This change can cost you … a lot! Interest rates are being adjusted based upon credit score. Servicing fees are being adjusted based upon credit score. If your score is 719, you are automatically lumped in with the folks as 680 (bucketing).

The highest score of 850 is frowned upon because those folks don't owe enough and typically don't pay month-to-month interest charges, etc. They too are often discriminated by the powers that be … You lose, you lose, you lose.

Bucketing, Rebucketing and credit scores

The terms bucketing and bucketing refers different credit categories and the way Fico formula evaluate consumers' credit scores.

You may have expected that that Fico would evaluate people solely on the basis of their credit file, but this is not the case. What Fico actually does is to compare you to people with similar credit standing to yours. Thus, your credit is now evaluated differently as you move from one category to another, and your score may change suddenly without anything actually changing in your credit.

The change can be either positive or negative. It's not unheard of for people to lose or gain up to 80 points over nigh just because they had moved to a different category. When

Bucketing simply means that you have been moved from one category to another. Customers of some credit monitoring service often receive the following message when this happens:

"You moved from one category of credit users to another as time passed. For example, you may have transitioned from the category 'consumers with a new credit history' to the category 'consumers with a two-to-five-year credit history'. As a result, your credit report is evaluated differently, causing a slight change in your score. The good news is that moving between categories like this usually offers you the potential to reach a higher FICO score in the future"

The bucketing system works out more to the benefit of those with a few derogatory items or very little to no history than it does them harm.

Without it, folks with long established credit history would have the whole top half of the score numbers scale absolutely locked up tight for themselves, leaving the bottom half to those with past derogatory items or short credit history, which would have been stuck there for 10 to 20 years.

By assigning a better score to some individuals compared to others in the **same category**, potential lenders can figure out which of the new-credit individuals are likely to do better and are not as likely to default.

The categories tend to split out according to:

Length of credit history

Thickness of file (number of accounts)

Presence of a new account

Presence of seriously negative payment history
(90+ days late, charge off, etc.)

Here is some information on FICO:

The **FICO** Components

35% is Payment History

30% is Amount Owed

15% is Credit History Length

10% is Types of Credit

10% is New Credit

Payment History

Ability to Pay

Collections and Tax Liens

Late Payments

Public Records

Charge Offs (7 year life)

Amount Owed

Make sure you have a 30% is Balance to Limit Ratio

Balance Transfers

Increase limits if you can

Reset Payment Due Dates to just prior to Credit Reporting Date for the Company

*Capital One – doesn't report credit limits – also raises rates if Credit Score drops

*AMEX – doesn't report credit limits

By Law, a HELOC for more than $75k should be reported as installment debt.

Credit History Length

Average Age of Open Accounts

Some use a 10 Year Average Age

Close Small Accounts

Inherit someone else's Credit History – ask them to add you on as an Authorized

User (just don't ask for a credit card on their account) – their credit history is reported along with yours on your credit report – will raise your score.

Types of Credit

Revolving Credit – Cards, HELOC under $75k

Installment Credit – Student Loans, Auto Loans

Real Estate Mortgage and HELOC's over $75k

Balance Types - 3-8 Revolving Accounts & Balances by Installment & Real estate

New Credit

New Accounts cost you 10-20 points during the first 60-90 days

Inquiries = hard inquiries are new account inquiries there is impact

Soft inquiries are existing accounts – no impact

Promotional Credit Card inquiries have no impact

Watch out for Companies like Lending Tree and Di-tech as well as some mortgage companies. They shop your applications to other lenders causing several companies to pull hard inquiries. Each hard inquiry will drop your credit score.

Information

If you have a Creditor Dispute, you must send the same Good Faith Letter to the creditor and every reporting agency.

Credit Card Debt Negotiation may kill your credit score. Contact the Hardship Department at the Credit Card Company to see what you can do.

You should prioritize your debt payments. Pay off higher interest rates first; however, you should also pay off small balances quickly and completely. Also, ask your credit card companies individually to increase your credit limits (don't use it unless you must).

For Building Credit, the comment regarding becoming an Authorized User on someone else's account helps a lot. You can also open a guaranteed credit card by depositing perhaps $500 with the bank and getting a credit card with a $500 limit for a year or so. Also, Overdraft Protection on your Checking Account is reported as a credit card whether you use it or not. Used car sales people tell you that you can create credit by making payments to them … most don't ever report anything unless you don't pay.

Inaccurate Information includes:

Wrong Name and Social Security Number and Birthdate

Late Payments

Bankruptcy

Collections/Charge Off

Medical

Student Loans

Jr / Sr Account Discrepancies

Credit Card Limits (many banks have reduced them without reason)

Problems:

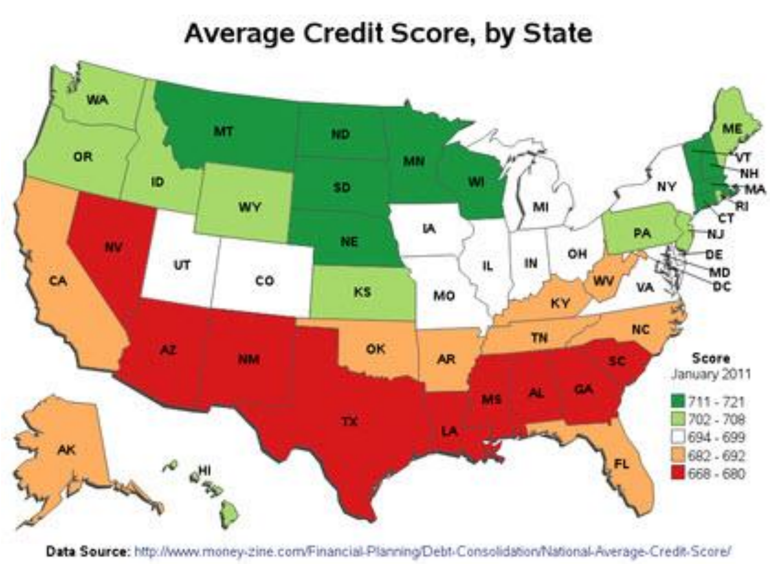
Foreclosures and Deed in Lieu are reported as Foreclosures – 200 points – but you can qualify for a new mortgage soon after 2 years subject to credit score.

Walk-Aways are reported as a Foreclosure with Prejudice – 200+ points – you are not qualified for a new mortgage for ‘at least’ seven years … maybe more years.

You should:

AnnualCreditReport.com - You can pull 1 free credit report every 4 months from each of the 3 major credit reporting agencies. *This can change at any time.

Credit Score Statistics



When anticipating the differences in average credit score, there are many factors we may consider – income levels, age, and the amount of debt they hold the three big ones. But there’s another surprising factor that correlates with credit scores – where you live. In fact, the disparities between credit scores from state to state are startling. FICO reports the average credit score in the U.S. is 681 and the national average Experian Vantage score is about 750, but there’s a huge differential between states – up to 60-100 points, something we wouldn’t necessarily suspect. Of course there are wealthy and poorer people everywhere, so why are the credit score discrepancies from state to state so large? There are many possible reasons for this – different levels of education, debt, the health of regional economies, and different financial cultures.

First, let’s look at Vantage and Transunion’s scoring data to determine the trends by state. This is data based on Transunion’s Trans Risk model, which, like FICO, it runs on a 300 to 850 scale.

States with the highest average credit score:

1. Wisconsin - 681
2. Hawaii - 681
3. Massachusetts - 677
4. New Jersey - 676
5. Minnesota - 674
6. Washington - 671
7. Connecticut - 671
8. New York - 669
9. Vermont - 668
10. Colorado - 664

States with the lowest average credit score:

50. Mississippi - 618
49. Louisiana - 625
48. Arkansas - 628
47. Alabama - 629
46. South Carolina - 629
45. Kentucky - 632
44. West Virginia - 633
43. Nevada - 638
42. South Carolina - 639
41. Texas - 639

States with the highest average Vantage scores:

1. Wisconsin - 724
2. Minnesota - 713
3. North Dakota - 708
4. South Dakota - 707
5. New Jersey - 703
6. Nebraska - 702
7. Iowa -701
8. Montana- 700
9. Massachusetts - 698
10. Hawaii - 698

States with the lowest average Vantage scores:

50. Mississippi - 646
49. Louisiana - 654
48. Nevada - 655
47. Georgia - 656
46. California - 658
45. Texas - 658
44. South Carolina - 660
43. Alabama - 661
42. Oklahoma - 663
41. New Mexico - 657

Cities with the best average Vantage scores:

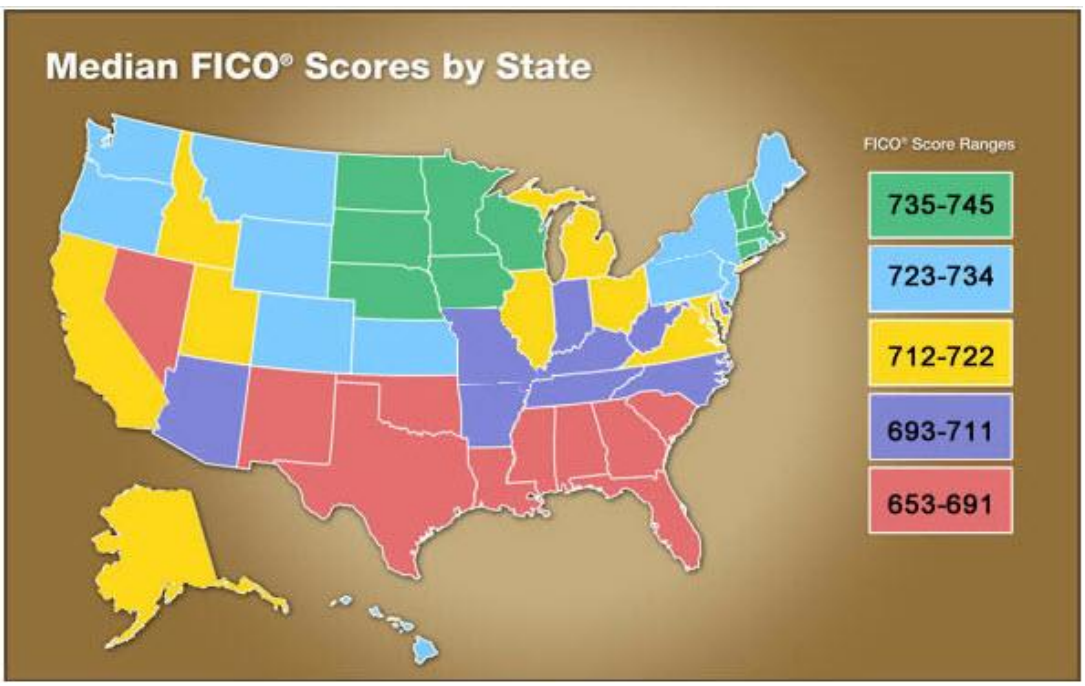
Rochester, Minn. — 716
Mankato, Minn. — 716
Sioux Falls, S.D. — 713
Minneapolis, Minn. — 713
Green Bay, Wis. — 713
Wausau, Wis. — 711
Madison, Wis. – 711
Fargo, N.D. — 711

Cedar Rapids, Iowa — 711
La Crosse, Minn. — 710

Cities with the worst average Vantage scores:

Greenwood, Miss. – 622
Albany, Ga. — 632
Riverside, Calif. — 638
Harlingen, Texas — 640
Laredo, Texas – 641
Jackson, Miss. — 644
Corpus Christi, Texas — 647
Las Vegas, Nev. — 647
Monroe, La. — 648
Shreveport, La. — 648

Let's look at FICO's map of median credit scores by every state:



What can we extrapolate from this data? The majority of states with the highest averages are congregated in the Midwest and North East. While almost the entire South is in the red or purple – with the lowest average scores of 653-711. In fact, the southern states do not have a state in the blue or green, where the highest average scores range from 723-745. Except for Nevada, there isn't one state north of Oklahoma or New Mexico in the red, the lowest bracket with 653-691. While out of the states with the highest credit scores – shown in the green – all are north of Nebraska.

Additionally, eight of the 10 cities with the highest average VantageScores in 2012 were in the Midwest. And eight of the 10 cities with the lowest average VantageScores in 2012 were in the South.

There is a general correlation with income levels, though it’s not so direct that we can conclude wealth is the only factor in average credit scores by state. In fact, out of the states with the lowest average credit scores, Louisiana, Mississippi, Oklahoma, South Carolina, New Mexico, and Alabama are also on the list of 10-lowest income states. But New Jersey, Massachusetts, Hawaii are the only states on the list for wealthiest and best credit scores.

Credit Underwriting Guidelines

Let's talk about credit underwriting guidelines. A separate section on Credit Repair goes into detail on how to get your report, what credit scores are based on, correcting errors and improving scores.

Here we are going to talk about facts, your credit history as you believe it to be today, and the credit guidelines that apply to each situation.

Would you rate your credit: *Good, Fair, Poor, or Excellent? AND, Why?*
Do you know your credit score from all three major repositories: *Equifax, TransUnion, and Experian?*

- Have you been more than 30 days late on your rent or mortgage?
- Have you been more than 30 days late on your car payment?
- Have you been more than 30 days late on your credit cards?
- Do you have any collections, judgments, or liens?
- Do you have any bankruptcies, foreclosures or repossessions?
- Do you have student loans?
- Do you have any debts from a previous marriage?
- Do you have four lines of credit that are at least 2 years old?

Credit Scores

Most mortgages on the market today are credit score driven with the **exception of FHA credit guidelines** (one of the best loan programs on the market for people with minor issues that lower scores) and a very few non-conforming loans. Credit scores range from 300 to 850. A rule of thumb: The higher your score, less risk, lower interest and less down payment required. Lower scores could require a larger down payment and could have higher interest.

Credit scores are just one factor but here is the basic break down for loan qualification:

A score of 640 and above will get you into a conventional conforming loan with the lowest rates available (Fannie Mae and Freddie Mac). These rates are 1% above the 10 year T-Bill.

In the non-conforming market credit scores will determine your interest rate. You may be in this market for many reasons, not just score. It could be because; your loan amount exceeds conventional guidelines (jumbo), the house does not qualify, no down payment, high debt ratios, credit history issues, or you could be self-employed and don't show enough income to qualify.

Credit scores above 640 will get you the best rates in this market which is 1 to 2 points higher than the conforming market, depending on the type of loan you are getting.

Scores from 580 to 639 could put you as much as 3 to 4 points higher in rate, and you can still qualify for a zero down program.

If your score is below 560 you will need at least 20% down and the rate will be 4 or more points higher.

Credit Payment History:

Your payment history contributes about 35% towards your overall credit score but history is also a credit guideline factor on its own. Underwriters look at the last 7 years and if there are no Glaring issues such as bankruptcies or collections or judgments they are most concerned with the last two years. This is what the underwriters are looking for:

Mortgage and Rent History

This has to be your number one priority. If you have been more than 30 days late on your rent or mortgage in the last 12 months you will not qualify for a Fannie Mae, Freddie Mac, or FHA/VA loan. Again, there are sometimes exceptions. If you have a very high score, lots of assets, and a legitimate excuse. If you can't get a waiver for a late mortgage payment there are still loans available to you in the non-conforming market. The interest rate will depend on how many times you have been late.

Car payment and installment loans

Your credit history should reflect no 60 day late payments and no more than one 30 day late to get a conforming mortgage. The non-conforming mortgages allow these and again the rate depends on how many late payments you have had.

Revolving accounts or credit cards

You must not have any 60 day "lates" and no more than two 30 day "lates" for a conforming loan. Non-conforming loans do allow them and again the rate is dependent on the number.

Collections, Judgments, and Liens

Fannie Mae, Freddie Mac, FHA and VA require that all be paid in full and they prefer that they be at least two years old. FHA will sometimes make an exception on the length of time or if they are on a current payment plan in which case all other things must be good. Typically, the non-conforming market does not care if they are paid off or not as long as they do not impact title. Some non-conforming lenders want them paid off if they are over a certain amount. This market is a maze of guidelines and they differ from one mortgage lender to another. This is another reason why you always want to use a mortgage broker.

Bankruptcy Credit Guidelines

Fannie Mae and Freddie require 4 years from discharge date. FHA only requires 2 years and a good excuse, and reestablished credit. Actually, you can Qualify for an FHA loan if you are still in chapter 13 (for at least a year) have been paying on time through the courts, and you get court approval which does happen often!

Non-conforming lender requirements vary quite a bit. As a general rule they do want to see reestablished credit unless you are putting 20% down. There are some lenders that will lend with one day out of discharge. Your credit score is very important on these programs. Again, you need a broker to sort out the details for you. Guess what, that's free, and no obligation. They will look at your entire portfolio and if they can't get you in something now, they will counsel you on the steps you need to take to get in a loan later. Be sure you seek out a broker that has ALL the products on the market including FHA.

Foreclosures Credit Guidelines

Generally, a foreclosure of your primary residence must be at least three years old and have been caused by circumstances out of your control: such as, death of the primary wage earner, layoff, or long term serious illness. Non-conforming lenders do vary but will normally require a substantial down payment if it is less than 3 years old.

Repossession Credit Guidelines

The credit guidelines on this are about the same as a foreclosure except that it cannot have a deficiency balance for a conforming loan. The non-conforming market doesn't care about the balance if it is more than three years old and again, their credit guidelines vary from one lender to another.

Student Loan Credit Guidelines

Defaulted student loans will haunt you for the rest of your life. Unless they are re-affirmed or paid off you will never get a conforming mortgage. However, the non-conforming market generally does not care about them at all except in extreme cases to the tune of $50k or more.

Previous Marriage??

Be careful here. The conforming market could care less about your divorce agreement with respect to your debt. If you signed, you are still accountable. FHA will sometimes make a wavier if you can show the divorce decree that states it is the other parties’ responsibility and all other things are good. (These debts will also affect your debt to income unless you can prove the other party is paying with 12 months cancelled checks.) The non-conforming lenders will normally accept the divorce decree.

Credit Depth Guidelines

Generally this term refers to how many trade lines you have, how long you have had them and their amounts. Most lenders want to see at least a two years history and at least 4 trade lines. Some require one of those trade lines to have had a balance over a certain dollar amount ($5,000). In the non-conforming market these requirements vary between lenders.

You can see how poor credit will cost you a lot of money in higher interest. It is important to take care of your credit and monitor often as it sometimes contains errors.

Credit Scoring Methodology

Overview

The Predictive Score is based on unique trade data gathered by participating Affiliates. The scoring model **predicts** late payments and severe delinquency looking **forward** 6 months. The **predictive** variables include current aging status, historical aging (including trends and variance in payment trends) and other business characteristics.

Key Facts

Risk Rate Definition	The model **predicts** the probability that more than 25% of the firms total balance will be 90+ days past due over the next 6 months
Predictive Data	The score leverages 12 months of historical trade data to **predict** future behavior; including aging dollars, percentage, business credit tenure and historical aging trends. In the development of the model, over 1,000 predictive attributes were considered with the final models including between 28 and 35 unique variables.
Predictive Variables	Total Dollar Balance Total dollar amount and percentage of balance that is current, past due, 60+ days past due and 90+ days past due. Maximum balance over the previous 12 months that is current, past due, 60+ days past due and 90+ days past due. Standard deviation in current and past due balances. Business Tenure on the database. “Age of oldest credit” Business location (State).

Credit Score Output

Credit Score	Score Range: 450 to 850 As the score increases the credit risk decreases. The probability of *RISK* doubles with every 40 point drop in the score.
Score Class	**1** – VERY LOW RISK – *Score Range 760 - 850* **2** – LOW RISK – *Score Range 700 - 759* **3** – LOW TO MODERATE RISK – *Score Range 630 - 699* **4A** – HIGH RISK – *Score Range 560 - 629* **4B** – VERY HIGH RISK – *Score Range 500 - 559*

	5 – EXTREME RISK – *Score Range 450 - 499* **NA** – Score is Not Available (see detailed description below)
NA Score Descriptions	**996** Firms current payment status already meets the Risk definition with 25% of total balance 90+ days past due **997** Firm has bankrupt date on file within the last 24 months **999** The firm has fewer than 3 trade experiences within the last 12 months
Score Commentary	The score includes up to 3 score factors that provide the most significant negative factors that lower the firms score.

Indicators that Are Typically Important in Retail Credit Scoring Models

Variables or indicators that are typical to the retail segment of credit scoring are given in this appendix. To answer the question of what the main determinants of default are, it is necessary to design a model specification containing the right variables. The following brief outline concentrates on those variables that most frequently come from the relevant literature; the variables are presented in the table below. **They have two common features: first is their soundness in helping to estimate the probability of default of an applicant; second is their explanatory power when a credit-scoring method is employed to analyze a loan application**. The variables can be divided into four main categories as the table below indicates. In the following text we will briefly discuss the importance of each of these categories.

Indicators that Are Typically Important in Retail Credit Scoring Models

Demographic Indicators	Financial Indicators	Employment Indicators	Behavioral Indicators
1. Age of borrower 2. Sex of borrower 3. Marital status of borrower 4. Number of dependants 5. Home status 6. District of address	1.Total assets of borrower 2. Gross income of borrower 3. Gross income of household 4. Monthly costs of household	1. Type of employment 2. Length of current employment 3. Number of employments over the last *x* years	1. Checking account (CA) 2. Average balance on CA 3. Loans outstanding 4. Loans defaulted or delinquent 5. Number of pay-ments per year 6. Collateral/guaran-tee

The first category contains *demographic indicators*. These variables typically do not have the highest importance, but they are useful in capturing various regional, gender, and other relevant differences. For example, it is often found that older women are less risky than young men. In general, the risk of default decreases with age and is also lower for married applicants with dependents. Home owners also represent a less risky category due to a house as collateral (more on collateral in the fourth category). Relations like this can help to better discriminate between good/bad applicants.

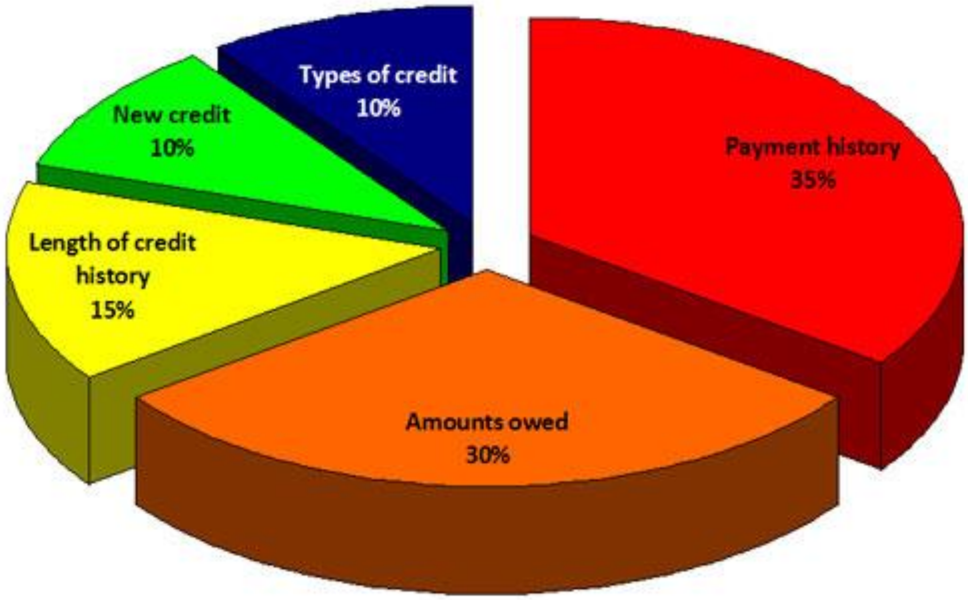
The second category contains data on a *financial situation*. When considering a loan application, a bank needs to know what other available resources a household has, what its incomes and costs are, and consequently from these items of information, what the realistic or potential maximum possible monthly payment is. The importance of these variables is evident.

The source of income and *employment status* constitutes the third set of variables. Typically, in developed countries, a large proportion of people are self-employed and this category frequently receives a lower score in the assessment of loan applications than employed people. This is due to the fact that stability of employment may provide a sign of stability of payments. The character and length of employment are also decisive factors: frequent change of low-skilled jobs invites a low score.

The *behavioral characteristics* of the fourth category are the first-rate information that can be used for credit scoring. This type of information significantly lowers the problem of asymmetric information between a bank and a client. If a client has some history with a bank, then that bank can easily verify, for example, the history of average balances in a checking account(s), the inflow and outflow of money from that checking account(s), etc. The bank knows if the client has already had a loan, whether this loan was successfully repaid, or whether it involved some problems. Banks often share this type of information, since previous default/delinquency is a serious determinant of future problems with repaying debts. The existence, type, and value of collateral are also a part of the category. Collateral is often a key, and in the case of certain loans the dominant, factor in determining a bank's lending decision. Collateral is also a forceful factor in a client's decision to repay the debt. From this point of view, real estate serves as the best collateral. The threat of losing one's house in the event of default is a critical factor for a client.

Building Client's Credit Score

Since we already know the 5 factors of Credit Score:



Payment history (35%)?

It only makes sense that lenders would be most concerned about this factor, and weigh it more heavily than any other single consideration.

They believe that history dictates the future. In terms of their level of certainty, lenders put this principle right up there with "the earth is round," "night follows day," and "doughnuts are delicious."

If you're a borrower with a poor payment history, and you're looking for a new loan, you're going to have to overcome this prejudice. Now of course you'll argue that things have changed, that you've "turned over a new leaf," and that from now on you'll do better. Depending on your own personal story and how persuasive you are, your lender might believe you (it will help if he's a blood relative); but it always will be a very difficult sell. For the most part, lenders just can't get past the idea that if you haven't paid your debts in the past, you probably won't start now.

If you have a payment problem in your credit records, the severity of the impact on your credit score will depend on three considerations:

1. **How long ago was the problem?** The more recent the problem (say a "late pay"), the greater the impact on your score. As time passes, the impact will diminish. Again, this makes sense from the lender's point of view. If the cause of your problem is recent, it probably has not had time

to go away. If your problem was in the distant past and you've paid on time in recent months, it's more likely that the cause of the trouble has disappeared.

2. **How often did the problem occur?** The more often the problem occurs, the greater the impact. Not shocking. No surprise here. The longer a poor payment history lasts, the more likely it is that it's a "habit." Habits are hard to break.

3. **How serious was the problem?** Obviously, the more serious the problem, the greater the impact on your credit score. For example, a payment that is 90 days past due will cause a bigger "hit" to your credit score than a payment that is 30 days past due. If your "90-day" is on your $2,000 monthly mortgage payment, this will lower your score much more than if you ignored a $27 minimum payment on one of your credit cards. Among the payment history problems that are considered very serious, and that can drag a score down severely, are foreclosures, bankruptcies and court judgments.

How much of your available credit do you use (30%)?

This factor is also known as your "utilization rate." To understand why this factor works the way it does, again you have to put yourself in the position of a lender. Lenders want to know about the character of the person they're dealing with--whether the loan applicant is "responsible," especially with it comes to managing money.

A good way to measure this (they believe) is to look at how much money a person could borrow if they wanted to, and then look at how much of that total the person has actually borrowed. They reason that if you have a proven ability to resist temptation (not to get too moral about it); you're probably responsible with money. You'll probably pay them what you owe them and you'll probably do it on time.

They also consider that when people find themselves in tough financial circumstances, a common reaction is to start "living off the cards." They see high balances as a sign that something bad might have happened to your financial condition—an illness or a layoff, for example. Needless to say, they view this with alarm.

So, they look at the limits on your revolving debt (your credit cards, your store charge accounts). If they see that you have a card with a $5,000 limit, and that you usually run a balance of around $1,000, they like that. They consider this a good sign. If they see that you often "max out" your limit on the card, they don't like that at all. They don't like it even if you routinely pay your big balance down to zero every month.

Here's how this works in practice: Let's say Beth owes $5,000 on a $15,000 account. Jim owes $2,400 on a $2,500 account. John will likely take a bigger hit to his credit score than Beth will, even though her debt is more than twice as large. In the eyes of the FICO software, Beth is a better, more responsible money manager than Jim.

Many consumers pay off their cards every month. Maybe you do too. This might be good debt management, but there are two reasons why it probably won't help your score much:

1. Credit card companies only report to the CRAs periodically. They report the balance that exists on the date of reporting. If you run a high balance before you pay off once per month, that high balance is the number reported.
2. The companies report the "high water mark" on your accounts, as well as the payment history.

Finally, it might be tempting to think that if you have three cards with limits of $5,000 each, it would be safe to run a high balance on only one of them and use the other two very little. Not so. For reasons not clear to me, the system will penalize your score for the high balance on the first card, and reward you little, if at all, for your sparing use of the other two cards.

If you want to have this factor weigh in your favor, you'll need to maintain low balances on all of your revolving credit accounts. Ideally, the balance on any card should never exceed 30% of the credit limit on that account.

Now, I know that many consumers pay off their cards every month. Maybe you do too. This might be good debt management, but there are two reasons why it probably won't help your score much:

1. Credit card companies only report to the CRAs periodically. They report the balance that exists on the date of reporting. If you run a high balance before you pay off once per month, that high balance is the number reported.

2. The companies report the "high water mark" on your accounts, as well as the payment history.

Length of Credit or How long you have had credit (15%)?

This is another "common sense" factor (unlike the one we just discussed). If you've had good credit for 25 years, you're more likely to maintain that level of performance than someone who has only a two-year credit history. The FICO software considers the following: The age of your oldest account, and the average age of all your accounts.

There are two lessons here.

1. If you're a young consumer who wants to qualify for the best rate when the happy day comes to buy a home, act now. Establish a good, positive account history as early as possible.
2. If you have some good older accounts, and a good score, think twice about opening a new account. The new account will reduce the average age of all your accounts, and

possibly lower your score. It also might be prudent to close one or two newer accounts, if you can do it without inconvenience, to boost the average open account age.

When did you last apply for credit (10%)?

The impact of this factor is relatively minor, compared to those like your payment history and your account limits, but it is directly under your control and therefore deserves some attention.

Generally speaking, your score can be downgraded slightly if you open a number of new accounts within a short period of time. The FICO software weighs:

- The length of time that has passed since you applied for a new account.
- The length of time that has passed since you actually opened a new account,
- The number of new accounts you've opened, and
- The number of new accounts you've opened recently.

The bottom line is that creditors don't like lots of new borrowing activity. They're suspicious of it because they see it as a sign of irresponsibility and poor money management skills. The key word here is "new." As your new accounts become older accounts, and build up good payment histories, it becomes clear that you knew what you were doing all along, and the lenders become less concerned. That's why the "newness" factor counts the way it does and fades with time.

Of course, now and then you might need to open a new account (after all, once upon a time, all of your accounts were new); but it's in your interest to keep in mind that when you do it, the marginal effect on your score can be negative. Consider carefully before signing and submitting that next account application.

What types of credit do you have (10%)?

Another borrower characteristic that lenders like is a history of using more than one type of credit. They don't weigh a mix of loan types as heavily as some of the other factors, but they still like it—probably for a couple of reasons:

1. They know that certain types of loans, like real estate mortgage loans and car loans, require a much bigger financial commitment on the part of the borrower, and usually they involve some pretty substantial payments.
2. They know that mortgage and car loan lenders tend to delve pretty deeply into your employment and personal history, and if you survived the process, that's good.
3. They recognize that certain bank credit cards, like VISA, MasterCard, and American Express have more rigorous acceptance standards that some other kinds of local or regional revolving accounts. To the extent that you have these "stronger" accounts in your mix, that's good too.

On the whole, a good mix of credit includes a mortgage, an installment loan and two or three revolving (credit card) accounts.

Steps to Increasing Scores

Now we are going to look at these same five factors, but now we're going to go beyond discussing what they are. Now we're going to focus on certain steps that you can take, or missteps that you can avoid taking, that will

- Cause your credit score to go up,
- Prevent your credit score from going down, or
- Both.

The following are nuts and bolts "Dos" and "Don'ts"—action items that you can use to start improving your financial life right now.

Step 1—Manage Your Payment History

As we discuss, your credit payment history (the biggest slice of the pie chart) counts for about 35% of your credit score; so making sure you do everything you possibly can to establish, maintain, or improve your own personal history is huge for you. If you've resolved to turn a page in your life and start doing things differently when it comes to your bills, this is the place to start.

The FICO algorithm (the software, the math, the calculator—whatever you want to call it) takes three things into account when evaluating this factor:

1. How often have you failed to pay on time?
2. How far "past due" were you?
3. How much did you fail to pay?

Here are some action items that will help you (some are obvious; others, not so much):

- Pay everything on or before the "due date" if you can.
- Use an automatic payment system for loans with fixed payments (installment loans, mortgages, etc.); and for revolving credit payments establish a reliable calendar or "reminder" system that you can count on.
- Never "skip" a payment. Even if you can't pay a bill on the due date, don't just let it go for a month. Creditors normally don't report a "late pay" to the CRAs until an account is 30 days past due, but there is no guarantee that they won't. If you find that you can't pay a bill until it is 10 or 20 days late, make the payment as soon as possible. Above all, don't let the account go unpaid for 30 days.
- If you're "short" in a given month and you can't pay all your bills, do whatever you have to do to come up with the necessary money. Borrow it from a friend, draw down on your savings if

you have any, sell something of value on eBay and do whatever you can; just don't let any of your creditors report that you are "late" on any of your accounts.

- If all else fails, and you're facing the prospect of two late pays in a single month because you can't quite get the money together to pay them both, then pool what you have available and pay one of them. Two late pays is much worse than one.
- If your minimum payment is $50 and you only have $25, don't just send in the $25 and call it good. This will register with your lender as a missed payment, and after 30 days it will likely be reported as a "late pay." Instead, wait a few days if you must, find the additional $25 and send in the $50 payment as soon as possible.
- If your financial life is in a bumpy stage (maybe you're facing reduced hours at work, or more expenses than normal) take stock of your revolving credit. If you have several cards, they're all going to require minimum monthly payments. If it looks like you might have trouble meeting the "minimum monthlies," consider transferring some balances as necessary to pay one or more down to zero. This will reduce the chances that you'll end up later with a "30-day" on your record.

There's one more consideration that doesn't necessarily affect your credit score, but it's still very important. If you're only a few days late on a credit card, the lender probably won't report a "late pay," but a "late pay" isn't the only bad thing that can happen. Depending on the terms of your credit card contract, the lender might be entitled to raise your interest rate on the card if you're late only a few days. You want to avoid this result whenever you can.

Step 2—Control Your Use of Available Credit

Approximately 30 percent of your credit score is calculated by weighing how much of your available credit you actually use (see the 30-percent slice in the pie chart). It's almost as important as your payment history. The scoring system's main concern is how you are handling your revolving credit (your credit cards). It looks at how much you owe on your cards and compares that amount to the credit limits on those cards.

The closer you get to your limits on your cards, the lower your credit score will be. If you want to have this factor weighed strongly in your favor, here are the measures you need to take:

- Make sure you know the credit limits on all your cards, and don't let the balance on any of your cards climb above 30 percent of the limit. For example, if the limit on one of your cards is $1,000, don't let the balance get above $300.

- If you have a number of cards, but you have a favorite that you like to use and you often run a balance near the limit, stop doing this. Instead, spread your monthly card use among your various cards, keeping the balance low on each. Figure out a system that works for you—For example, if you have three cards with comparable limits, use one card for the first ten days in the month, switch to another for the next ten days, and so on.

- Whether or not you pay the entire balance on your cards every month, send in your payment as soon as possible. This will increase the number of days each month that your account shows a low balance, and this in turn increases the likelihood that this low balance will be the number that your card company reports to the CRAs.

- If you have a card that doesn't have a preset limit (like American Express), the credit card company reports the highest balance that you have established since you got the card, and the CRAs treat that high balance just like a credit limit for purposes of calculating your utilization rate. If you have such a card, figure out what your historical high water mark is, and don't let your future balance climb above 30 percent of that amount.

- If one of your cards is above 30 percent and you have other cards that are not, don't be afraid to transfer balances as necessary to get all the utilization rates below 30.

- If you don't have the cash flow to get all your cards below 30 percent and keep them there, go through the exercise of spreading everything out and getting as close to 30 percent on each card as you can. For purposes of helping your score, a 40-percent utilization rate is better than a 70- or 80-percent rate.
- If you have a card with a high limit (say, $20,000) and your other cards have lower limits (maybe $5,000 each), do what you have to do to get the $20,000 card's utilization rate down to where it should be. Do this even if it means that you'll go over 30 percent on one or more of your other cards. A high utilization rate on a card with a high limit hurts your score more than a 30-percent violation on a lower-limit card.
- If all else fails, don't be afraid to call your credit card company and request a limit increase. Be sure to talk with them first about exactly how to do this and whether you'll likely qualify for the increase you're looking for. You also might ask if they intend to pull your credit report as part of the process of deciding whether to grant your request for an increased limit. If you're only talking about one card, you're trying to get your 35-percent utilization rate on that card down below 30, and you've had a number or recent "inquiries," then the cost of another inquiry on your record might not be worth it.

- Don't assume that you can run a high balance, pay it off at the end of the billing period, and by so doing escape the "utilization rate" trap. You probably won't. Credit card companies report the balance that shows on your account on the date they send in their report to the CRAs. You might get lucky--they might report on the very day your full-balance payment is posted and your balance goes to zero—but it isn't likely. Chances are they'll decide to send in the report on your account when the balance is way above 30 percent of the limit.

- Don't assume that you'll be OK if you have an overall utilization rate of under 30 percent for the combined limits on all your cards. You won't. It's the utilization rate on each individual card that counts.

- Finally, if you have only one or two revolving accounts and you're running above 30 percent on either or both, consider opening another account or two. As you'll see in the next section, opening a new account isn't always a good idea from a scoring point of view, but the positive effect of getting your cards below 30 percent should outweigh any negative effect resulting from a new account.

If you look back in your statements and you see that your highest balance was pretty low (maybe you've always used this card sparingly), then transfer some balances from other cards

to this account to pump up the balance, pay the card down to zero right away, and then go forward from there reverting back to your usual light use of the card.

Step 3—Age Your Accounts

How long your various accounts have been open counts for about 15 percent of your total FICO score. The scoring system weighs two considerations:

1. How old is your oldest account?
2. What is the average age of all your accounts?

The older your accounts are, the better the system likes it. Here's what you can do to manage this issue:

- Open credit accounts as early in your adult life as you can. Assuming you handle them like you should, they'll just sit there in your report and build credit score strength for you over the years. When it comes time to make a big purchase, like a home, your older accounts might make the difference in qualifying you for a lower rate. Remember Jack and Jim and the frightening amount of extra money that Jim's mortgage cost him over the years.

- If you have plenty of credit, and you have some new accounts that you're not using, close them. This will bump up the average age of your remaining older accounts.

- Don't open new accounts without a good reason. The next time you hear a store clerk offer to take 40 percent off the purchase price if you open a store account then and there, politely decline. If you don't, that new credit line will show up on your credit report, and the negative impact on your score will probably cost your far more in the long run than any savings you might enjoy on today's store purchase.

- Of course, from time to time you'll have to open a new account; but try to do it when you're not contemplating a major credit purchase (like a home or a new car). If you can put some months or years between your last new account and your application for a big installment loan, this will help you. The "new" account will have become "older," your credit score will be higher, and the rate on that home or car loan will be lower.

Step 4—Credit Types (How you are mixing your credit)

The credit scoring system looks favorably on variety, and as we saw on the pie chart, “type of credit” weighs in at 10 percent. Your score will be marginally higher if you have more than one type of credit. What do I mean by “type”?

Well, one basic type is the installment loan, which is a loan on which the amount owed is fixed at the beginning of the loan, and fixed monthly payments consisting of principal and interest (installments) are required over the life of the contract. This type of loan comes in two flavors: secured and unsecured (signature).

1. A secured installment loan involves collateral—something that you agree the lender will have the right to take away from you and sell if you fail to pay the loan as agreed. The most common examples are car loans and real estate home mortgage loans.

2. An unsecured loan does not involve any collateral. In essence, the lender agrees to make the loan on the strength of your signature (thus the name, “signature” loan). A good example of an unsecured loan is a student loan.

Whether they are secured or not, installment loans have a predetermined life span. If you make your payments on time over the life of the loan, the contract is paid off and the account relationship ends. For example, if you finance your car for five years and at the end of the period you pay off the note, you own the car free and clear and the account is closed.

The other basic type of personal credit is the revolving account. Credit cards fall into this basket, along with various kinds of store charge cards. The amount of the outstanding balance is NOT fixed at the beginning of the contract, and neither is the amount of the monthly payment that will be due. You can borrow, pay back, borrow some more, pay back, and on and on. This can go on indefinitely, month after month and year after year. That’s why it’s called a “revolving” account.

Finally, there is a common loan type that is a kind of hybrid—a combination of both an installment loan and a revolving credit account. What I’m talking about here is the home equity loan. It has features of both basic types. With most home equity loans, you can borrow, pay back and borrow some more (just as with a credit card), but it is secured by your home just like a normal real estate mortgage. If you don’t pay, the bank can foreclose on your house (very unlike a credit card).

The scoring system likes to see a mix among these various types. Here are some guidelines and things you can do to help yourself and your score:

- Try to have some installment loans, but not too many. Probably two or three is best from a credit scoring perspective. Probably at least one of them should be secured.
- If you don’t have any installment loans at all, consider simply borrowing some money from your bank on a signature note (say, $5,000), and deposit all of that money in an interest-bearing account at that same bank. Leave it there and don’t touch it. Arrange to have the monthly payments on your new loan paid automatically from your new deposit account. To some extent the interest on the deposit account will offset the interest on the loan, and in the

end the loan will only cost you a few dollars. Your score will benefit because you will have paid back a secured installment loan—always a good fact to have in your credit file.

- If you don't want to put the loan proceeds in a bank account, you can still establish a secured installment loan. If you own something of substantial value (maybe a car that you intend to drive for a while and that you own free and clear), then offer it as collateral on your new loan. Make the term short, pay it off as agreed, and help out your credit score.
- Have at least three revolving accounts, in addition to your installment loans, and don't limit yourself to local or regional store charge cards. Accounts with national companies, like American Express, VISA and MasterCard, will improve your score more than accounts with local merchants.

Step 5—Minimize New Credit

This last factor counts for the final 10 percent of your credit score. It's similar to the factor that weighs the ages of your accounts, but lenders have a very different reason for being interested in this "new credit" issue.

- They care about account ages because the longer you have been making timely payments on your accounts, the more likely it is that you will keep up this behavior.
- They care about this last factor, new credit, because if you have very recently applied for additional credit, it's more likely that you have reached the edge of your ability to handle all your monthly obligations (or that you're getting closer to the edge).

Once you establish your ability to handle your new account over a period of a few months, it becomes obvious that you weren't at the edge after all, and the concerns lessen.

Here are the considerations that the scoring model takes into account:

- The length of time that has passed since you applied for a new account,
- The length of time that has passed since you actually opened a new account, and
- The number of new accounts you have opened recently

Here are a couple of tips for dealing with this last factor:

- You should open accounts early in life and keep them open if you can.
- Don't let vendors check your credit unless you are serious about a purchase. The CRAs see this as a new credit application and count it against you.
- Finally, you should be guided by the same considerations detailed in Step 3. They all apply with equal force here.

Credit Inquires

Typically, inquiries have a very small impact on your credit score. In a credit scoring model, there are other stronger indicators of future payment performance, such as delinquencies and payment history, balances owed, and the length of time you have used credit. Inquiries usually carry the most weight if you have a limited credit history or if there are other existing issues such as late payments or high debt. Inquiries are rarely, if ever, the only reason for poor credit scores or being declined for credit. You should, however, limit the number of inquiries you authorize whenever possible.

Why do credit inquiries affect my credit score?

Lenders are interested in inquiries because multiple inquiries are an indication that you are requesting new credit. The credit scoring agencies have found that borrowers who request credit frequently tend to be higher risk borrowers. Thus, frequent inquiries on your credit report that result from frequent requests for new credit (credit cards, loans, etc.) can lower your credit score. (The lower your score, the more risk the lender sees in lending to you.)

What is Rate Shopping?

Credit reporting agencies understand that borrowers need to shop around to find the best loan, which can create multiple inquiries in a short time. To address this, the scoring formula doesn't penalize borrowers for shopping around. The score is set up to take into account that even though you are looking for only one loan, multiple lenders may request your credit report. Here's what Fair Isaac, the company behind your FICO score, says about rate shopping:

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. In addition, the score looks on your credit report for auto or mortgage inquiries older than 30 days. If it finds some, it counts all those inquiries that fall in a typical shopping period as just one inquiry when determining your score. For FICO scores calculated from older versions of the scoring formula, this shopping period is any 14 day span. For FICO scores calculated from the newest versions of the scoring formula, this shopping period is any 45 day span. Each lender chooses which version of the FICO scoring formula it wants the credit reporting agency to use to calculate your FICO score.

Does the formula treat all credit inquiries the same?

No. Research has indicated that the FICO score is more predictive when it treats loans that commonly involve rate-shopping, such as mortgage, auto and student loans, in a different way. For these types of loans, the FICO score ignores 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. In addition, the score looks on your credit report for rate-shopping inquiries older than 30 days. If it finds some, it counts those inquiries that fall in a typical shopping period as just one inquiry when determining your score. For FICO scores calculated from older versions of the scoring formula, this shopping period is any 14 day span. For FICO scores calculated from the newest versions of the scoring formula, this shopping period is any 45 day span. Each lender chooses which version of the FICO scoring formula it wants the credit reporting agency to use to calculate your FICO score.

How long do Inquiries stay on my credit report?

Although inquiries will remain on your file for up to 2 years, those in the last 6 months will count most heavily against you.

What is the difference in a "HARD" and "SOFT" Credit Inquiry?

- A **hard inquiry** is when a person or organization requests your credit score and history and they intend to make a lending decision. Applying for a credit card? Hard inquiry. Getting approved for a car loan or mortgage loan? Hard inquiry. On your reports, each of the credit unions categorizes these inquiries differently. TransUnion calls them "regular inquiries," Experian calls them "requests viewed by others," and Equifax calls them "Inquiries in the last 12 months." Hard inquiries usually drop your score by a few points for six months, and then their effect is removed. This is why it's usually NOT a good idea to apply for credit cards before you get a mortgage loan

- A soft inquiry is everything else. They are often used by a person or organization when they don't intend to make a lending decision, though there are exceptions from one institution to another. Landlords and prospective employers will use them to assess your financial risk. Banks often use soft inquiries to confirm your identity. Credit cards and mortgage lenders use them to decide whether to pre-approve you for a card or a loan. When you check your own credit history, that's a soft inquiry. Soft inquiries have no effect on your score

Different Type of Inquires

There are different types of inquiries and some are nothing to worry about. The following is an example of inquiries and what they mean.

You reviewed your credit:

When you have requested a copy of your credit report, this is a "soft" inquiry and does not negatively affect your credit. It is not seen by potential creditors. **(Neutral)**

Credit Bureau Review:

This again, has no impact on your credit and simply means the bureau reviewed your file. **(Neutral)**

Creditor review:

This is simply a standard review that is done by existing creditors. It also does not impact your credit. **(Neutral)**

Credit Request:

This can be negative if you have too many. Inquiries remain in your profile for 2 years, so too many of this type can be negative and result in denials. **(Negative)**

Collection agency review:

Very negative. If you have any inquiries from a collection agency who has begun collecting on an expired debt (expired under the statute for reporting, which is 7 years) then that does not qualify for a permissible purpose and should be removed. Inquiries from a collection agency are **very negative**.

IRS:

Very negative. Inquiries from the IRS usually tell a potential lender that you are either being audited or have a tax lien pending.

Tenant Screening:

This type of inquiry is O.K. It simply shows you are moving or did move and the landlord ran a credit check. **(Neutral)**

FICO® Score versions

FICO® Scores have been in use for over 25 years by many kinds of lenders to make more informed credit granting decisions. To keep up with behavioral trends of consumers and to suit the evolving needs of lenders, the FICO® Score model has been redeveloped over the years. The result is that there are multiple FICO® Score versions available in addition to the most widely used version, **FICO® Score 8.**

Additional FICO® Score versions, including prior base FICO® Score versions as well as industry-specific auto and bankcard versions, are also included in the FICO® Score products on credit monitoring services e.g. myFICO.com.

Experian	Equifax	TransUnion
Most widely used version		
FICO® Score 8	FICO® Score 8	FICO® Score 8
Versions used in auto lending		
FICO® Auto Score 8 FICO® Auto Score 2	FICO® Auto Score 8 FICO® Auto Score 5	FICO® Auto Score 8 FICO® Auto Score 4
Versions used in credit card decisioning		
FICO® Bankcard Score 8 FICO® Score 3 FICO® Bankcard Score 2	FICO® Bankcard Score 8 FICO® Bankcard Score 5	FICO® Bankcard Score 8 FICO® Bankcard Score 4
Versions used in mortgage lending		
FICO® Score 2	FICO® Score 5	FICO® Score 4

With all FICO® Score versions, the keys to FICO® Scores remain the same:

- Make payments on time
- Keep credit card balances low
- Open new credit accounts only when needed

Part 1: Base FICO® Score versions and updates

One reason why there are multiple FICO® Score versions is that the FICO® Score model is updated periodically, resulting in a new FICO® Score version released to market every several years. The most recent FICO® Score version that is widely used by lenders is FICO® Score 8.

Why are there multiple FICO® Score versions?

Since FICO® Scores were introduced to lenders over 25 years ago, they have become an industry standard—the best-known and most widely used credit score. But quite a bit has changed since lenders first started using FICO® Scores in 1989. Lender credit-granting requirements, data reporting practices, consumer demand for credit, and consumer use of credit have all evolved.

FICO has redeveloped its scoring formula several times to keep pace with this changing credit landscape, ensuring that it remains an intuitive predictor of credit risk. FICO® Score models are updated to keep lending fast and fair for both the lender and consumer. When we update our model, we make sure that the score reflects changing consumer credit behavior, includes our newest analytic technology, and is adjusted for recent data reporting enhancements.

When a new FICO® Score version is developed, we release it to the market. From there, each lender determines if and when it will upgrade to the latest version. Some lenders make the upgrade quickly, while others may take several years. This is why some lenders are currently using different versions of the FICO® Score. An example, FICO® Score 5 at Equifax is the FICO® Score version previous to FICO® Score 8 at Equifax.

It helps to think of how people use different versions of computer operating systems or have older or newer generations of smart phones. They all share the same base functionality, but the latest versions also have unique updated features to meet evolving user needs.

The same goes for FICO® Scores. The various score versions in use today all share a similar underlying foundation—effectively identifying high risk credit users from low risk ones. With every score update, however, unique features are incorporated that leverage new risk prediction technology and better reflect recent consumer credit behavior. The end result is a more predictive score that helps lenders make more informed lending decisions, which ultimately makes the credit process easier, faster, and fairer for you.

Part 2: Industry-specific FICO® Scores

Industry-specific FICO® Scores are versions of FICO® Scores that are optimized for a certain type of credit product, such as auto loans or credit cards. The foundation of these versions is the same as the base FICO® Score versions, but they are fine-tuned based on industry-specific risk behavior.

Difference between base FICO Scores and industry-specific FICO Scores?

Base FICO® Scores, such as FICO® Score 8, are designed to predict the likelihood of not paying as agreed in the future on any credit obligation, whether it’s a mortgage, credit card, student loan or other credit product.

Industry-specific FICO® Scores are designed to assess the likelihood of not paying as agreed on a specific type of credit obligation—car loans or credit cards, for example.

Industry-specific FICO® Scores incorporate the predictive power of base FICO®Scores while also providing lenders a further-refined credit risk assessment tailored to the type of credit the consumer is seeking. For example, auto lenders and credit card issuers may use FICO® Auto Score or a FICO® Bankcard Score, respectively, instead of base FICO® Scores.

FICO® Auto Scores and FICO® Bankcard Scores have these aspects in common:

- Many lenders may use these scores instead of the base FICO® Score
- It is up to each lender to determine which score they will use and what other financial information they will consider in their credit review process
- The versions range from 250-900 (compared to 300-850 for base FICO® Scores) and higher scores continue to equate to lower risk

Which FICO® Score version is important to your clients?

Consider these guidelines:

Financing a new car? You'll likely want to know your FICO® Auto Scores, the industry specific scores used in the majority of auto financing-related credit evaluations. **They are also called auto enhanced credit scores.**

Applying for a credit card? You'll likely want to know your FICO® Bankcard Scores or FICO® Score 8, the score versions used by many credit card issuers.

Purchasing a home or refinancing an existing mortgage? You'll want to know the base FICO® Score versions previous to FICO® Score 8, as these are the scores used in the majority of mortgage-related credit evaluations.

For other types of credit such as personal loans, student loans, and retail credit, you'll likely want to know your FICO® Score 8, the score most widely used by lenders

New FICO Model

For years, many consumers have faced a catch-22 when it comes to getting credit. To qualify for a credit card or obtain another type of loan, you typically need to have a credit history to show lenders that you're responsible and able to pay off debt. But it's hard to build a solid credit history if you can't get credit in the first place. Recent changes to the way the Fair Isaac Corporation, or FICO, determine credit scores could change that, potentially giving millions more Americans access to credit.

In early April, FICO announced that it was partnering with Equifax and LexisNexis to gather data about consumers' past payments on utility and cellphone bills, as well as how frequently they change addresses. FICO plans to use that information to develop credit scores for up to 15 million people who don't currently have enough information in their credit report to generate a score.

The program is currently in its pilot stages, with 12 of the biggest issuers of credit cards using the new data to make decisions about offering credit. So far, the program has been a success, according to FICO, which plans to roll out the score to more lenders later in the year.

FICO's focus is on expanding access to credit; not simply scoring more people. Their approach also addresses a paradox for people seeking their first traditional credit product — you often need a credit history before you can get traditional credit.

The new approach to scoring is welcome news to credit card issuers and other financial institutions that are looking for a way to bring millions of consumers into the financial mainstream. By broadening the pool of people who are eligible for credit, these companies can expand their customer base. Financially responsible consumers who are struggling to prove their creditworthiness may also benefit.

Ninety percent of Americans currently own a cellphone, according to the Pew Research Center. In comparison, just 71% have a credit card, according to a Gallup poll, down 7% since 2008. Some of those people may be credit-free by choice, but others may want credit and are unable to get it because of a sparse credit history. By looking at whether those people are able to pay cellphone or cable bills on time, card issuers may be able to offer credit to a wider swath of consumers, possibly on better terms than they would have been able to get elsewhere.

The move to include data about cellphone and utility payments in credit scores could have unintended consequences, though. Consumer advocates have lobbied against considering utility payments when computing credit scores, the Consumerist reported. The National Consumer Law Center has argued that low-income consumers who fall behind on utility bills in the winter or summer, when energy costs typically spike, may end up with black marks on their credit history as a result, even if they later make up the payments. The bad credit history that results "can often be worse than no credit history," the NCLC points out.

Consumers often struggle to pay cellphone bills as well. A little less than half of people whom the Pew Research Center identified as "smartphone dependent" (the 20% of U.S. adults who said their phone was their primary way of accessing the Internet) said that they had been forced to cancel or shut off their service because they couldn't afford to pay the bill. People who fall behind on their cellphone bills may end up with a lower credit score, while it's possible that those who cancel their service periodically may end up with a spotty history that could also affect their score.

People who move around a lot may also end up with less-than-stellar credit score under this new system. "Address history speaks to consumer stability. Yet the very people who are left out of current credit scoring models are also relatively mobile. It's not clear how frequently a person would have to move for it to ding his or her credit score, but there's little doubt that including such a factor in the calculation could hurt young people and renters, who change addresses more frequently than most other groups, according to U.S. Census data.

These new credit scores are a work in progress, and a number of kinks will have to be worked out before they enjoy widespread adoption. For now, consumers who already have a FICO score probably won't be affected by the changes, as CNN reports that the new scores will be separate from current ones. But consumers with little or no credit history may want to start paying extra attention to paying their cellphone and electric bills on time, since this data could soon have a major effect on their financial future.

Removing Late Items Marked over 90 days

The key to dealing with these issues is to know your legal rights. Sending letters to intimidate Original Creditors, Collections Agencies and CRA is actually a waste of time. It simply doesn't work because they are NOT afraid of your threat. They only see you as irritants.

The main point is that you will asking for information that they don't want to provide. You're going to be demanding action on their part that they don't want to take. Providing information and taking action always costs time, effort and money. By making these legal requests, you're giving them two choices:

1. Provide the information or take the actions that the law requires, or
2. Remove the negative item and thereby avoid having to do any of the things you're requesting.

These tactics work because you basically just offer them these choices and they take the easy way out.

Remember that all of these companies are private, for-profit businesses. They exist to make money. They like to do things that make them money; they hate doing anything that doesn't make them money. In particular, they really don't like to do anything they see as an expensive nuisance. In the paragraphs to follow, I'm going to show you how to become an expensive nuisance. You're going to learn how to give these companies two choices; and removing your negative item is always going to be the more attractive option.

Let's cover a method you can use with original creditors (OCs) when you have 60-day to 150-day late payments showing on your report, but the amounts are paid in full. It doesn't matter if the late payments were fairly recent or from many years back. As long as the accounts are now current and were never charged off or placed in collections, this method can be applied.

Once again, you're going to be writing to your OC, but this time you're not going to be asking for any favors. The nice, humble tone will be gone. This is not a goodwill letter. This time you're going to be a little more aggressive. The idea here is to offer your OC a choice to either

· Provide you with certain documentary information, or
· Notify the CRAs to remove the negative item from your report.

You're hoping, of course, that they choose the latter option. But will they? Yes, they might very well. Here's why: The FCBA requires creditors to bill correctly and completely. This means that they must be sure that

· The account was created at your request,
· Every item billed to the account was billed correctly,
· Every billing statement was created in a timely manner,
· Every billing statement was sent to the correct address,
· The creditor never ignored your change of address requests,
· The creditor never ignored disputed charges, and
· All interest charges and late fees were computed in accordance with federal law and with any laws specific to your home state.

The creditors know what they're supposed to do under this law. You're going to be sending them a letter that asks them to prove to you that they have done everything that the law requires. You're going to tell them that if they can't provide the proof requested, you expect them to see to the removal of the negative mark on your report. You're banking on the fact that assembling and providing the requested information will take time, effort and money, but removing your negative item will be easy and quick.

You're also presenting yourself as someone who might resort to a couple of additional options if you don't get your way—namely, you might sue them in court or you might ask the Federal Trade Commission (FTC) to get involved in your claim (the FTC is the federal agency that has jurisdiction over enforcement of the FCBA and certain other consumer rights laws).

If you were to sue, or to file a complaint with the FTC, the lender would have to get its own legal counsel involved, and this would cost them even more time, effort and money.

It's important to note that you won't be expressly threatening to do either of these things (you should never threaten to take any action that you don't intend to take), but the letter will have a tone suggesting that you are the type of person who won't stop if they ignore your request.

I like to call this approach the "Lender's Bewilderment Tactic. The objective is to leave the creditor wondering just what, exactly, you have planned. You're not making it easy for them to figure out your intent. You want the creditor to basically run through these thoughts when your letter arrives:

· "If we provide the information requested, we'll have to do a lot of work.
· This person might take legal action if we ignore this letter.
· It would be simpler and quicker to just remove the negative item.
· That looks like the thing to do."

There's one other feature of this tactic that I want to call to your attention. You don't need to claim that there were any specific problems with the way the creditor handled your account. This is worth repeating. You don't need to claim that the creditor did anything wrong. You simply want to exercise your right to ask for the documentation that proves that the creditor did nothing wrong—that the creditor did not violate your rights.

It's perfectly legal to request the information, and there is no risk at all as long as the creditor has been paid in full. I've prepared a sample letter for you to use as a reference when writing your own letter. You'll find it after this section. Fair Credit Billing Act Evidence Request.

Again, I strongly suggest that you write your letter in your own words. Just use the sample as a guide. You want to appear as a person who is knowledgeable about consumer rights. You don't want to look like someone who is just using a form letter as a tactic, with no real plans to follow through. Let your own personality shine through in the letter; it's more likely to have the desired effect.

Lender's Bewilderment Tactic

ONLY FOR CREDIT ACCOUNTS THAT SHOWS LATE PAYMENTS BUT HAS BEEN PAID OFF IN FULL!

The objective in this approach is to place the creditor in a state of confusion or wondering what are your plans based on the actions taking within this tactic.

The key to this approach is that you are not making it easy for them to figure out your intent. What's great about this tactic is the process of thoughts any creditor will take if they don't comply with your requests. Such as,

- "This is a lot of work to provide this person the requested information."
- "If we ignore this request, they could take legal action against our company."
- "The quickest or simplest thing to do is to just remove the negative item."
- "Yes, we will just remove the entry to prevent a mistake."

Important: Do not claim or say anything about a specific problem or that you have concerns regarding the way things were reported or anything negative about the creditor. THIS IS VERY IMPORTANT!!

The only thing you are doing is exercising your rights to have documentation provided by the creditor just to prove that they did not violate rules or any of you rights.

It's perfectly legal to request the information but again, **only if you have paid them in full**.

Here is your sample letter. **MAKE SURE YOU SEND THIS CERTIFIED MAIL!!!!!**

Fair Credit Billing Act Evidence Request Letter

Date:
Creditor's Name
Address
City, State, Zip

Re: Account. #

CERTIFIED MAIL; RETURN RECEIPT REQUESTED

Dear Sir or Madam,

After obtaining my credit report, I noticed that it shows late payments on the above account with your company. It specifically states that I was (*describe exactly what it shows on the credit report, XXX days late. It may show 30-90 late and how many times*). This has damaged my credit score and extremely troubling.

I am sure you aware and understand that it is required by law that your company must take proper care in ensuring the accuracy of this information with my account; adhering to this of the upmost.

- You are required to send my statements or bills to my correct address, take care to respond to my change of address requests and accurately record my payments in a timely fashion.
- Also make sure late fees are accessed properly.

In this regard, I hereby request the following steps to remedy this situation.

1. To ensure compliance with all provisions of the **Fair Credit Billing Act**, please send me a notarized statement attesting that you have complied with this act in regards to my account.
2. I'm requiring written evidence for all the payment you claim that I was late according to my obligations with your company.
3. I'm seeking written evidence of timely billing and the posting of all payments I made on this account, regardless to whether or not you claim they were late from the time this account was opened to this present date.

If you are not able to provide me this evidence that I am legally entitled to have in writing, I affirm that you please delete all negative references of these late payments entries by your company on all CRA as they were submitted e.g. Experian, Equifax and TransUnion and any others.

If I have not received these itemized documentations within the period prescribed by law, I will expect to receive written notification that you have deleted all late entries that I've disputed off my credit report.

I'm thanking you in advance for attending to my requests promptly

To verify my ID and my address, I am enclosing copies of (here describe a government-issued identification, such as a state drivers' license or a passport) and a recent (**enter here a bill, such as a phone or an electric bill, that shows your current mailing address**).

Sincerely,

Adjust this letter according to your needs.

Sample VALIDATION LETTERS

JOHN OR JANE DOE
123 YOUR STREET
YOUCITY, STATE ZIP

XYZ Company
Address
City, State Zip

Certified Mail #: ____________________ Date:___________________

Ref: Debt Validation Demand

RE: ACCOUNT #: 123456

Greetings:

I am in receipt of a presentment from you, or your company dated Monday, August 17, 2015. By said communication you or your company has made a claim of agency to act on the behalf of a principal with standing and capacity to collect a debt to which you allege I am obligated. Please, do not construe this as a refusal to pay, but rather, as a notice of dispute of the alleged debt until you provide your bona fides.

I am aware of no obligation that I have to you or anyone else concerning the debt collection letter you sent to me. Until such time as you have established proof positive by best evidence that you hold agency, to act on behalf of a person with legal and equitable standing, and/or the legal capacity to collect on a debt owed by me, your authority to collect any alleged debt and the debt itself is hereby to be construed as in dispute.

In the future, please abate all attempts to contact me by phone. Make all communications by written letter, fax, or email. Do not call me on my cell phone, my home phone, and most importantly do not call my work or any of my friends or neighbors.

EVIDENCE OF CONTRACT

I hereby demand that you produce for my inspection, an original contract that establishes the existence of a debt to which I am obligated to you or your principal. Please notify me of a time and place convenient to both you and myself for the above referenced inspection.

In as much as you have made a pro-active claim of agency to collect on an alleged debt and I have, by this document, disputed said debt, it shall not be construed that I have voluntarily waived any rights or protections available to me in the instant matter. I will consider a failure on your part to timely and adequately respond to this inquiry as admission that no such obligation exists and that your action was fraudulent and without authority.

This demand shall be further construed to include demand for a complete listing of all negotiations of any beneficial interest in the above alleged obligation. Please include complete contact information for all persons or entities who now hold or who have ever held a beneficial interest in said obligation to include any and all or other endorsements to said document.

1. If the above referenced claim of a debt obligation involves a claim of a debt concerning real property owned by myself, please make available for public inspection the original Deed of Trust or Mortgage document which you assert gives you or your principal a claim against the real property belonging to requestor. Please include any and all assignments, transfers, or negotiations of said lien document along with an affidavit attesting that the original or originals presented for inspection represent all the originals created and that the assignments, transfers, and/or negotiations of said document represent all such transactions that have taken place concerning said document. Further, please provide best evidence of each transfer of legal or equitable holder

status of this document to include a verified affidavit attesting that no party, not provided, now holds or has ever held a legal or equitable claim against the property.

2. In the event that security instrument has been created using the note as collateral for said security, please provide the name and contact information for any "document custodian" into whose care and custody the note representing the alleged debt obligation has been entrusted.

Verification

Please validate this debt with an *affirmed and verified* certification of the following:

3. that all persons or entities who now hold or who have ever held a beneficial interest in the property purported to secure the above referenced debt have been identified to include current contact information for each;
4. that all amounts claimed for collection are proper and valid;
5. that all laws concerning the collection of said debt have been complied with.

Debtor disputes all debt

Please provide the above in a timely manner; requester considers the need for the above to be urgent. In the event any deletions or redactions to any records occur, please provide the scope and substantive content of the records omitted from this request and the specific authority for the withholding of the requested information. Until such time as the information requested herein is provided, requester disputes the validity of lender's lawful ownership, funding, entitlement, or right the current debt collector alleges. By debt, requester is referring to the principal balance which debt collector claims requester owes, the calculated monthly payment, calculated escrow payment and any fees claimed to be owed by lender or any trust or entity for which lender may service or subservice.

Please Be Advised

In as much as this letter is in response to a pro-active claim on your part, any failure to satisfy this request within 30 days will be construed as your absolute waiver of any and all claims against me, and your tacit agreement to compensate me for costs and attorney fees.

Respectfully,

____

JOHN DOE

JOHN OR JANE DOE
123 YOUR STREET
YOUCITY, STATE ZIP

Date: ___________

Equifax
P. O. Box 740241
Atlanta, GA 30374-0241

Greetings:

This letter is a formal complaint that you are reporting inaccurate credit information.

I am very distressed you have included the below information in my credit profile, due to its damaging effects on my good credit standing. Because of the mistakes on my credit report, I have been wrongfully denied credit recently.

The following information needs to be verified and deleted from the report as soon as possible:

XYZ Company Account No: 123456

Please delete the above information as quickly as possible.

Respectfully,

____

JOHN DOE

JOHN OR JANE DOE
123 YOUR STREET
YOUCITY, STATE ZIP

Date: ____________

TransUnion
P. O. Box 1000
Chester, PA 19022

Greetings:

This letter is a formal complaint that you are reporting inaccurate credit information.

I am very distressed you have included the below information in my credit profile, due to its damaging effects on my good credit standing. Because of the mistakes on my credit report, I have been wrongfully denied credit recently.

The following information needs to be verified and deleted from the report as soon as possible:

XYZ Company Account No: 123456

Please delete the above information as quickly as possible.

Sincerely,

____
JOHN DOE

JOHN OR JANE DOE
123 YOUR STREET
YOUCITY, STATE ZIP

Date: ____________

Experian
2220 Ritchey
Santa Ana, CA 92705

Greetings:

This letter is a formal complaint that you are reporting inaccurate credit information.

I am very distressed you have included the below information in my credit profile, due to its damaging effects on my good credit standing. Because of the mistakes on my credit report, I have been wrongfully denied credit recently.

The following information needs to be verified and deleted from the report as soon as possible:

XYZ Company Account No: 123456

Please delete the above information as quickly as possible.

Sincerely,

____
JOHN DOE

So much power is within the hands of consumer when understanding provisions within laws such as the Fair Credit Billing Act. In such, consultants can use it to resolve late payment issues with old accounts. Also how to use the **validation method** with tremendous success. The key is to understand what are the requirements for creditors when documentation is requested by the consumer. Again, one powerful tool is how to remove late payments when an account is paid off.

This link is provided below as well as opinions and cases to help you understand just what is required for creditors to be in compliance. The best way to resolve credit issues is to look for and discover violations. You must have access to the Credit Helpdesk to see these opinions.

Opinions To Support your Case

http://credithelpdesk.org/kb/cass-ftc-opinion-letter/

http://credithelpdesk.org/kb/wollman-ftc-opinion-letter-validation-request/

Glossary of Credit Terms

Account Condition

Indicates the present state of the account, but does not indicate the payment history of the account that led to the current state. (i.e. open, paid, charge off, repossession, settled, foreclosed, etc.).

Account number

The unique number assigned by a creditor to identify your account with them. Experian removes several digits of each account number on the credit report as a fraud prevention measure.

Accounts in Good Standing

Credit items that have a positive status and should reflect favorably on your creditworthiness.

Adjustment

Percentage of the debt that is to be repaid to the credit grantors in a Chapter 13 bankruptcy.

AKA

Also Known As

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.

Annual fee

Credit card issuers often (but not always) require you to pay a special charge once a year for the use of their service, usually between $15 and $55.

Annual percentage rate (APR)

A measure of how much interest credit will cost you, expressed as an annual percentage.

Authorized User

Person permitted by a credit cardholder to charge goods and services on the cardholder’s account but who is not responsible for repayment of the debt. The account displays on the credit reports of the cardholder as well as the authorized user. If you wish to have your name permanently removed as an authorized user on an account, you will need to notify the credit grantor.

Balloon Payments

A loan with a balloon payment requires that a single, lump-sum payment be made at the end of the loan.

Bankruptcy Code

Federal laws governing the conditions and procedures under which persons claiming inability to repay their debts can seek relief.

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.

Capacity

Factor in determining creditworthiness. Capacity is assessed by weighing a borrower's earning ability and the likelihood of continuing income against the amount of debt the borrower carries at the time the application for credit is made. While capacity may be considered in a credit decision, the credit report does not contain information about earning ability or the likelihood of continuing income.

Chapter 7 Bankruptcy

Chapter of the Bankruptcy Code that provides for court administered liquidation of the assets of a financially troubled individual or business.

Chapter 11 Bankruptcy

Chapter of the Bankruptcy Code that is usually used for the reorganization of a financially troubled business. Used as an alternative to liquidation under Chapter 7. The U.S. Supreme Court has held that an individual may also use Chapter 11.

Chapter 12 Bankruptcy

Chapter of the Bankruptcy Code adopted to address the financial crisis of the nation's farming community. Cases under this chapter are administered like Chapter 11 cases, but with special protections to meet the special conditions of family farm operations.

Chapter 13 Bankruptcy

Chapter of the Bankruptcy Code in which debtors repay debts according to a plan accepted by the debtor, the creditors and the court. Plan payments usually come from the debtor's future income and are paid to creditors through the court system and the bankruptcy trustee.

Charge-off

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

Civil Action

Any court action against a consumer to regain money for someone else. Usually, it will be a wage assignment, child support judgment, small claims judgment or a civil judgment.

Claim Amount

The amount awarded in a court action.

Closed Date

The date an account was closed.

Collection

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

Co-maker

A creditworthy co-maker is sometimes required in situations where an applicant's qualifications are marginal. A co-maker is legally responsible to repay the charges in the joint account agreement.

Consumer Credit Counseling Service

A non-profit organization that assists consumers in dealing with their credit problems. Consumer Credit Counseling Service has offices throughout the United States that can be located by calling 800 388 CCCS (2227).

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.

Co-signer

Person who pledges in writing as part of a credit contract to repay the debt if the borrower fails to do so. The account displays on both the borrower's and the co-signer's credit reports.

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 Card Accountability, Responsibility And Disclosure Act of 2009 (CARD Act): Enacted to limit the ways in which credit card companies can charge card users, the CARD Act prohibits such actions as arbitrary interest rates increases and peddling credit cards on college campuses. It also requires issuers to consider an applicant's income before credit card approval, among other things.

Credit check (or credit inquiry): A credit check happens when a lender, a company, or a bureau looks into your credit report and credit history. It occurs when you apply for a mortgage, open a new credit card, apply for a loan, buy a car, apply for insurance, or apply for a job. Lenders conduct a credit check to determine the likelihood that you'll pay back a loan. (See "Hard inquiry" and "Soft inquiry" for definitions of the different types of credit checks.)

Credit history

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

Credit Limit/Line of Credit

In open-end credit, the maximum amount a borrower can draw upon or the maximum that an account can show as outstanding.

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.

Credit score algorithm: The formula credit bureaus use to calculate your credit score. Each bureau has its own, proprietary credit score algorithm and it differs slightly from bureau to bureau. However, common significant factors remain the same and all algorithms take into account details from a consumer's credit report.

Credit utilization rate: Your total credit balance divided by credit availability. In other words, your credit utilization rate is percentage that represents how much your use your credit. For optimum credit health, this percentage should remain under 30% of your total credit limits at all times.

Creditworthiness

The ability of a consumer to receive favorable consideration and approval for the use of credit from an establishment to which they applied.

Creditor: A person or company that extends credit. Creditors include credit card issuers, banks, loan services, bill agencies, and any other financial service company that lends you money that you are obligated to pay back.

Date Filed

The date that a public record was awarded.

Date of Status

On the credit report, date the creditor last reported information about the account.

Date Opened

On the credit report, indicates the date an account was opened.

Date Resolved

The completion date or satisfaction date of a public record item.

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.

Derogatory marks: These include long-lasting negative records on your credit report, such as a bankruptcy, foreclosure, accounts in collections, and liens. They can typically take seven to ten years to clear from your credit history.

Discharge

Granted by the court to release a debtor from most of his debts that were included in a bankruptcy. Any debts not included in the bankruptcy – alimony, child support, liability for willful and malicious conduct and certain student loans – cannot be discharged.

Disclosure

Providing the consumer with his or her credit history as required by the FCRA. Credit Bureaus provide consumer credit report disclosures via the Internet, by U.S. Mail or in person at their offices.

Dismissed

When a consumer files a bankruptcy, the judge may decide to not allow the consumer to continue with the bankruptcy. If the judge rules against the petition, the bankruptcy is known as dismissed.

Dispute

If a consumer believes an item of information on their credit report is inaccurate or incomplete, they may challenge, or dispute the item. Experian will investigate and correct or remove any inaccurate information or information that cannot be verified. Experian gives consumers the option of disputing online or they may call the telephone number on their credit report for assistance.

ECOA

Standard abbreviation for Equal Credit Opportunity Act.

End-user

The business that receives the report for decision making purposes that meet the permissible purpose requirements of the FCRA.

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 and Charge Card Disclosure Act

Amendments to the Truth In Lending Act that require the disclosure of the costs involved in credit card plans that are offered by mail, telephone or applications distributed to the general public.

Fair Credit Billing Act

Federal legislation that provides a specific error resolution procedure to protect credit card customers from making payments on inaccurate billings.

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.

Fair Debt Collection Practices Act: Added in 1978 to the Consumer Credit Protection Act, the Fair Debt Collection Practices Act was created to help keep third party debt collectors from engaging in abusive, misleading, false, or deceptive debt collections practices.

FICO® Scores

Credit bureau risk scores produced from models developed by Fair Isaac Corporation are commonly known as FICO Scores. FICO 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.

Finance Charge

Amount of interest. Finance charges are usually included in the monthly payment total.

Fixed Rate

An annual percentage rate that does not change.

Foreclosure: Another highly negative record to have on your credit report, a foreclosure typically happens if you’ve defaulted on mortgage payments, and other reasons you can find? A bank or other investor in the property in question will take over the property as a result of the foreclosure. A foreclosure typically can remain on a credit report for seven years.

Generation Identifier

Generation identifiers are Jr., Sr., II, III, IV, etc.

Geographical Code

This information is received from the Census Bureau and represents the state, Metropolitan Statistical Area, county, tract and block group of the reported address. This code is similar to a ZIP Code.

Grace Period

The time period you have to pay a bill in full and avoid interest charges.

Guarantor

Person responsible for paying a bill.

Hard inquiry (or hard pull): A credit check done by a lender when you apply for a loan such as a credit card, a mortgage, or an auto loan. Each hard inquiry causes a small negative impact on y

High Balance

The highest amount that you have owed on an account to date. Our credit score, so be careful not to apply for multiple loans at once.

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 Credit

Credit accounts in which the debt is divided into amounts to be paid successively at specified intervals.

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.

Investigation

The process a consumer credit reporting agency goes through in order to verify credit report information disputed by a consumer. The credit grantor who supplied the information is contacted and asked to review the information and report back; they will tell the credit reporting agency that the information is accurate as it appears, or they will give us corrected information to update the report.

Investigative Consumer Reports

These are consumer reports that are usually done for background checks, security clearances and other sensitive jobs. An investigative consumer report might contain information obtained from a credit report, but it is more comprehensive than a credit report. It contains subjective material on an individual's character, habits and mode of living, which is obtained through interviews of associates. Experian does not provide investigative consumer reports.

Involuntary Bankruptcy

A petition filed by certain credit grantors to have a debtor judged bankrupt. If the bankruptcy is granted, it is known as an involuntary bankruptcy.

Item-specific Statement

Offers an explanation about a particular trade or public record item on your report, and it displays with that item on the credit report.

Judgment Granted

The determination of a court upon matters submitted to it. A final determination of the rights of the parties involved in the lawsuit.

Late payment

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

Last Reported

On the credit report, the date the creditor last reported information about the account.

Liability amount

Amount for which you are legally obligated to a creditor.

Lien

Legal document used to create a security interest in another's property. A lien is often given as a security for the payment of a debt. A lien can be placed against a consumer for failure to pay the city, county, state or federal government money that is owed. It means that the consumer's property is being used as collateral during repayment of the money that is owed.

Line of Credit

In open-end credit, the maximum amount a borrower can draw upon or the maximum that an account can show as outstanding.

Location Number

The book and page number on which the item is filed in the court records.

Mortgage Identification Number (MIN)

Indicates that a loan is registered with Mortgage Electronic Registration Systems Inc., which tracks the ownership of mortgage rights. This number will follow the homeowner throughout the mortgage.

Most Recent Date

The date of the recent account condition or payment status. This date is also the balance **date.**

Notice of Results

If your investigation results in information being updated or deleted, you may request that we send the corrected information in your credit history to eligible credit grantors and employers who reviewed your information within a specific period of time. If your investigation does not result in a change to your credit history, results will not be sent to other lenders.

Obsolescence

A term used to describe how long negative information should stay in a credit file before it's not relevant to the credit granting decision. The FCRA has determined the obsolescence period to be 10 years in the case of bankruptcy and 7 years in all other instances. Unpaid tax liens may remain indefinitely, although Experian removes them after 15 years.

Opt In

The ability of a consumer who has opted out to have their name re-added to prescreened credit and insurance offer lists; direct marketing lists and individual reference service lists. Consumers who have previously opted out of receiving prescreened offers may have their names added to prescreened lists for credit and insurance offers by calling 1 888 5OPTOUT (1 888 567 8688).

Opt Out

The ability of the consumer to notify credit reporting agencies, direct marketers and list compilers to remove their name from all future lists. Consumers may opt out of prescreened credit and insurance offer lists by calling 1 888 5OPTOUT (1 888 567 8688).

Original Amount

The original amount owed to a creditor.

Payment Status

Reflects the previous history of the account, including any delinquencies or derogatory conditions occurring during the previous seven years (i.e., Current account, delinquent 30, current was 60, redeemed repossession, charge-off – now paying, etc.)

Permissible Purposes

There are legally defined permissible purposes for a credit report to be issued to a third party. Permissible purposes include credit transactions, employment purposes, insurance underwriting, government financial responsibility laws, court orders, subpoenas, written instructions of the consumer, legitimate business needs, etc.

Personal Information

Information on your personal credit report associated with your records that have been reported to us by you, your creditors and other sources. It may include name variations, your driver's license number, Social Security number variations, your date or year of birth, your spouse's name, your employers, your telephone numbers, and information about your residence.

Personal Statement

You may request that a general explanation about the information on your report be added to your report. The statement remains for two years and displays to anyone who reviews your credit information.

Petition

If a consumer files a bankruptcy, but a judge has not yet ruled that it can proceed, it is known as bankruptcy petitioned.

Plaintiff

One who initially brings legal action against another (defendant) seeking a court decision.

Potentially Negative Items

Any potentially negative credit items or public records that may have an effect on your creditworthiness as viewed by creditors.

Public Record Data

Included as part of the credit report, this information is limited to tax liens, lawsuits and judgments that relate to the consumer's debt obligations.

Recent Balance

The most recent balance owed on an account as reported by the creditor.

Recent Payment

The most recent amount paid on an account as reported by the creditor.

Released

This means that a lien has been satisfied in full.

Report Number

A number that uniquely identifies each personal credit report. This number displays on your personal credit report and should always be referenced when you contact us.

Reported Since

On the credit report, the date the creditor started reporting the account to credit bureaus.

Repossession

A creditor's taking possession of property pledged as collateral on a loan contract on which a borrower has fallen significantly behind in payments.

Request an Investigation

If you believe that information on your report is inaccurate, we will ask the sources of the information to check their records at no cost to you. Incorrect information will be corrected; information that cannot be verified will be deleted. Credit Bureaus cannot remove accurate information. An investigation may take up to 30 days. When it is complete, we'll send you the results.

Request for Your Credit History

When a credit grantor, direct marketer or potential employer makes a request for information from a consumer's credit report, an inquiry is shown on the report. Grantors only see credit inquiries generated by other grantors as a result of an application of some kind, while consumers see all listed inquiries including prescreened and direct marketing offers, as well as employment inquiries. According to the Fair Credit Reporting Act, credit grantors with a permissible purpose may inquire about your credit information prior to your consent. This section also includes the date of the inquiry and how long the inquiry will remain on your report.

Responsibility

Indicates who is responsible for an account; can be single, joint, co-signer, etc.

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.

Risk Scoring Models

A numerical determination of a consumer's creditworthiness. Tool used by credit grantors to predict future payment behavior of a consumer.

Satisfied

If the consumer has paid all of the money the court says he owes, the public record item is satisfied.

Secured Credit

Loan for which some form of acceptable collateral, such as a house or automobile has been pledged.

Security

Real or personal property that a borrower pledges for the term of a loan. Should the borrower fail to repay, the creditor may take ownership of the property by following legally mandated procedures.

Security Alert

Statement that is added once Experian is notified that a consumer may be a victim of fraud. It remains on file for 90 days and requests that a creditor request proof of identification before granting credit in that person's name.

Service Credit

Agreements with service providers. You receive goods, such as electricity, and services, such as apartment rental and health club memberships, with the agreement that you will pay for them each month. Your contract may require payments for a specific number of months, even if you stop the service.

Settle

Reach an agreement with a lender to repay only part of the original debt.

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.

Soft inquiry (or soft pull): A credit check that does not impact your credit score. Soft inquiries include background checks by employers, verifications of identity, and your own requests to see your credit report.

Source

The business or organization that supplied certain information that appears on the credit report.

Status

On the credit report, this indicates the current status or state of the account.

Terms

This refers to the debt repayment terms of your agreement with a creditor, such as 60 months, 48 months, etc.

Third-Party Collectors

Collectors who are under contract to collect debts for a credit department or credit company; collection agency.

Tradelines

Entry by a credit grantor to a consumer's credit history maintained by a credit reporting agency. A tradeline describes the consumer's account status and activity. Tradeline information includes names of companies where the applicant has accounts, dates accounts were opened, credit limits, types of accounts, balances owed and payment histories.

Transaction fees

Fees charged for certain use of your credit line – for example, to get a cash advance from an ATM.

TransUnion

One of three national credit reporting agencies. The other two are Experian and Equifax.

Truth in Lending Act

Title I of the Consumer Protection Act. Requires that most categories of lenders disclose the annual interest rate, the total dollar cost and other terms of loans and credit sales.

Type

This refers to the type of credit agreement made with a creditor; for example, a revolving account or installment loan.

Unsecured Credit

Credit for which no collateral has been pledged. Loans made under this arrangement are sometimes called signature loans; in other words, a loan is granted based only on the customer's words, through signing an agreement that the loan amount will be paid.

Vacated

Indicates a judgment that was rendered void or set aside.

Variable Rate

An annual percentage rate that may change over time as the prime lending rate varies or according to your contract with the lender.

Verification

Verifying whether data in a credit report is correct or not. Initiated by consumers when they question some information in their file. Credit reporting agencies will accept authentic documentation from the consumer that will help in the verification.

Victim Statement

A statement that can be added to a consumer’s credit report to alert credit grantors that a consumer’s identification has been used fraudulently to obtain credit. The statement requests the credit grantor to contact the consumer by telephone before issuing credit. It remains on file for 7 years unless the consumer requests that it be removed.

Voluntary Bankruptcy

If a consumer files the bankruptcy on his own, it is known as voluntary bankruptcy.

Wage assignment

A signed agreement by a buyer or borrower, permitting a creditor to collect a certain portion of the debtor’s wages from an employer in the event of default.

Withdrawn

This means a decision was made not to pursue a bankruptcy, a lien, etc. after court documents have been filed.

Writ of Replevin

Legal document issued by a court authorizing repossession of security.