

## What Is Credit Scoring?

**C**redit scoring is a quick, accurate and consistent scientific method for assessing credit risk. Your credit scores are based on data stored by a credit repository about your credit history and payment patterns. Statistical models that assign points to factors indicative of repayment calculate credit scores. These scoring models exist in software utilized by credit bureaus or lenders. **Credit scores are based on data rather than human judgment, making credit scoring an objective risk assessment tool as opposed to a subjective, possibly discriminatory, human interpretation of information.** Even the best underwriter cannot match scoring's statistical ability to weigh and measure hundreds of factors and reach a number indicating relative credit risk in a matter of seconds. **The resulting score is a "snapshot."** It sums up what your past payment performance and current usage of credit say about your level of credit risk to the lender. Because the score is a composite of all the applicant's credit information, NO single factor like a late payment or even a bankruptcy—will be the sole cause of an unacceptable credit score.

## What Data Is A Repository Scoring Model Based On?

### Scoring Models DO NOT consider:

Race, gender, religion, marital status, income, nationality, neighborhood, employment history, position or title, sexual preference, or interest rate being charged on a particular card.

### Scoring Models DO include:

NOT just the negative credit information such as late payments and bankruptcies, but all the credit information stored in the repository's credit file on you at the time of the request.

#### ► Past Payment Performance— (35% of the credit score's weight)

- The fewer late payments, judgments, liens or collections, the better. Zero negative entries on your report usually indicate a lower risk.
- Recent late payments are more indicative of future default by you than those that occurred more than 24 months ago.
- A 30-day late payment by you today will have a greater negative impact on your score than a bankruptcy five years ago with clean credit since.

#### ► Credit Utilization— (30% of the credit score's weight)

- Low balances on several credit cards are better than high balances on a few cards. Balances on your cards should be kept at or below 30% of the available maximum credit limit.
- Too many credit cards can be detrimental.
- WARNING: Do Not Close Any of Your Accounts Without First Discussing your Complete Credit Profile With Your Mortgage Professional. Your Score Could Go Down!!**

#### ► Credit History— (15% of the credit score's weight)

- The longer accounts have been opened and in good standing, the lower the risk indications are about you.
- Opening new accounts and closing your seasoned accounts will negatively impact your score. **AVOID "credit surfing."**
- Established credit history is relative to your past payment performance and how high or low your credit usage may be. Self discipline in utilizing credit shows lower risk.
- A short credit history does not automatically indicate that you are a high credit risk, as long as you are not a heavy user of credit and your payments have been made on time. Keep your balances on cards **LOW!!** To get a score, you should have one account that has been opened for at least six months.

#### ► Types of Credit in Use— (10% of the credit score's weight)

- Finance company accounts will score lower than the accounts you secure through banks or department stores. If the predominance of your accounts are with finance companies only, it may appear you cannot qualify for a better type of credit.
- "90 days same as cash" and deferred payments generally are funded by finance companies, so this variable is a weak indicator for the average consumer.

#### ► Inquires on Your Report— (10% of the credit score's weight)

- Looking for new credit can indicate higher risk if several credit cards are applied for in a short period of time and your existing cards have been charged to their maximum limits.
- Multiple inquiries, regardless of the number, for mortgages or autos, in a 14-day period of time only count as a single inquiry in their impact on your score.
- Additionally, any mortgage or auto inquiry made about your credit file within 30 days of the current lender's inquiry, will not impact your score due to buffers within the credit scoring models.
- Promotional or administrative inquiries shown on your credit report **DO NOT** adversely impact your score.
- Only the first seven inquiries made by different trade lines shown on your credit report will actually be factored into the impact on your score.
- ONLY INQUIRIES AUTHORIZED BY YOU FOR THE PURPOSE OF BEING GRANTED NEW CREDIT LINES WILL IMPACT YOUR SCORE.**

*Thank You!*

*NAMB thanks Fair Isaac for its help in modifying scoring models to better serve the mortgage applicant, and for its assistance and permission to use its information for this project.*

Visit [www.MyFICO.com](http://www.MyFICO.com) on the web for additional information.

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National Association of Mortgage Brokers