

Scoring your Credit - How's your FICO?

In today's increasingly automated society, it should come as no surprise that when you apply for a mortgage, your ability to pay can be reduced to a single number. All the years you've been paying your mortgage, car payments, and credit card bills can be analyzed, sliced, diced, spindled and mutilated into a single indicator of whether you're likely to meet your future obligations.

All three of the major credit reporting agencies (Equifax, Experian, and TransUnion) use a slightly different system to arrive at a score. The best known is called the FICO score, based on a model developed by Fair Isaac and Company (hence the name) and used by Experian. Equifax's model is called BEACON, while TransUnion uses EMPIRICA. While each of the models considers a range of data available in your credit report, the primary factors are:

- Credit History - How long have you had credit?
- Payment History - Do you pay your bills on time?
- Credit Card Balances - How much do you owe on how many accounts?
- Credit Inquiries - How many times have you had your credit checked?

Each of these, and other items, are assigned a value and a weight. The results are added up and distilled into a single number. FICO scores range from 300 to 850, with higher being better. Typical homebuyers likely find their scores falling between 600 and 850.

FICO scores are used for more than just determining whether or not you qualify for a mortgage. Higher scores indicate you are a better credit risk, and thus may qualify for a better mortgage rate.

What can you do about your FICO score? Unfortunately, not much. Since the score is based on a lifetime of credit history, it is difficult to make a significant change in the number with quick fixes. The most important thing is to know your FICO score and to ensure that your credit history is correct. Conveniently, Fair Isaac has created a web site (www.myFICO.com) that let's you do just that. For a reasonable fee, you can quickly get your FICO score from all three reporting agencies, along with your credit report. Also available is some helpful information and tools that help you analyze what actions might have the greatest impact on your FICO score. Each of the credit services offers similar services on their web sites: www.equifax.com, www.experian.com, and www.transunion.com.

Armed with this information, you will be a more informed consumer and better positioned to obtain the most favorable mortgage available to you.