

# Understanding Your Credit Score

Provided by  
Kathy Delbridge, CMPS®  
[www.kathydelbridge.com](http://www.kathydelbridge.com)

# CREDIT SCORE

**What Does it Mean?**

# What Does The Score Mean?

- Predicts the statistical chance of a consumer becoming 90 days late or more on a particular loan obligation
- Each score is specific for each bureau
- Scores range from...  
... 300 to 850 for Classic FICO “**Fair Isaac ONLY**”
- The higher the score the less the odds of default
- The score is generated by analyzing the information contained in the consumer’s credit report at **THAT** point in time

# CREDIT SCORE

**Consumer Default: What are the Odds?**

# Odds on Consumers

<b>Score</b>	<b>Odds</b>
<b>Above 800</b>	<b>1485 to 1</b>
<b>720 to 799</b>	<b>649 to 1</b>
<b>680 to 719</b>	<b>112 to 1</b>
<b>620 to 679</b>	<b>47 to 1</b>
<b>Below 620</b>	<b>15 to 1</b>

# Compare 30 yr fixed rates on a \$500,000 home

FICO Score	APR Rate	Monthly Payment	Interest Paid
720-850	5.3%	2776.52	\$499,549
700-719	5.9%	2965.68	\$567,647
680-699	6.5%	3160.34	\$637,722
620-679	7.6%	3530.37	\$770,937
560-619	8.4%	3809.19	\$871,305
500-599	9.9%	4350.95	\$1,066,352

	<b>SAM</b>	<b>LARRY</b>
<b>Salary</b>	Equal	Equal
<b>Credit Score</b>	<b>681</b>	<b>595</b>

	<b>SAM</b>	<b>LARRY</b>
<b>Salary</b>	Equal	Equal
<b>Credit Score</b>	681	595
<b>Yearly Savings</b>	<b>\$14,288</b>	<b>0</b>



	<b>SAM</b>	<b>LARRY</b>
<b>Salary</b>	Equal	Equal
<b>Credit Score</b>	681	595
<b>Yearly Savings</b>	\$14,288	0
<b>Interest Saved over 30 Years</b>	<b>\$428,630</b>	<b>0</b>

	<b>SAM</b>	<b>LARRY</b>
<b>Salary</b>	<b>Equal</b>	<b>Equal</b>
<b>Credit Score</b>	<b>681</b>	<b>595</b>
<b>Yearly Savings</b>	<b>\$14,288</b>	<b>0</b>
<b>Interest Saved over 30 Years</b>	<b>\$428,630</b>	<b>0</b>
<b>10% return on savings compounded total in 30 yrs.</b>	<b>\$ 2,476,911</b>	<b>\$0</b>

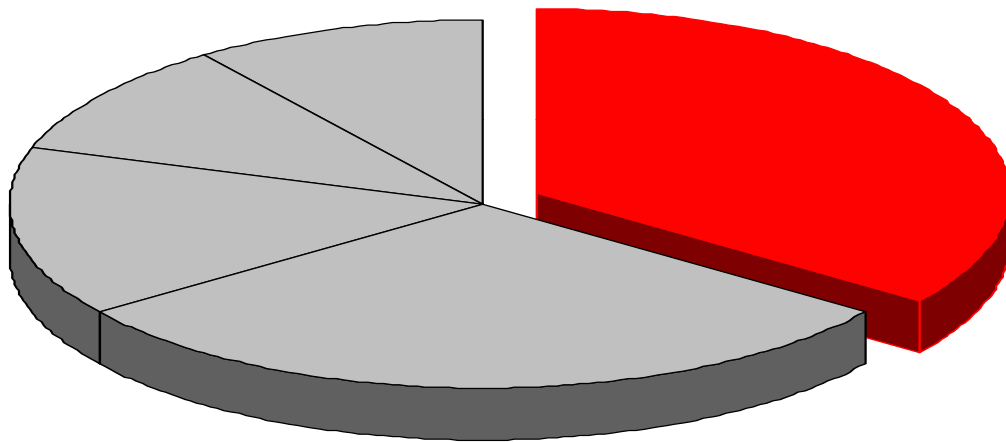
# CREDIT SCORE

**What are the determining factors?**

# Credit Score Components

1. Past Delinquencies
2. Revolving Debt Ratio
3. Average Age of File
4. Mix of Credit
5. Inquiries

# 1. Past Delinquencies



**35%**  
of  
Credit Score

# Past Delinquencies

- Timing of the delinquency

# Past Delinquencies

- Timing of the delinquency
- Level of Delinquency

# Past Delinquencies

- Timing of the delinquency
- Level of Delinquency
- Last activity date



# Past Delinquencies

- Timing of the delinquency
- Level of Delinquency
- Last activity date
- Past Due Notices destroy scores

# Past Delinquencies

- Timing of the delinquency
- Level of Delinquency
- Last activity date
- Past Due Notices destroy scores
- Missed payments (low vs. high)

# Past Delinquencies

- Timing of the delinquency
- Level of Delinquency
- Last activity date
- Past Due Notices destroy scores
- Missed payments (low vs. high)
- Pay-off collections in Escrow NOT before

(Catch 22, can go either way )

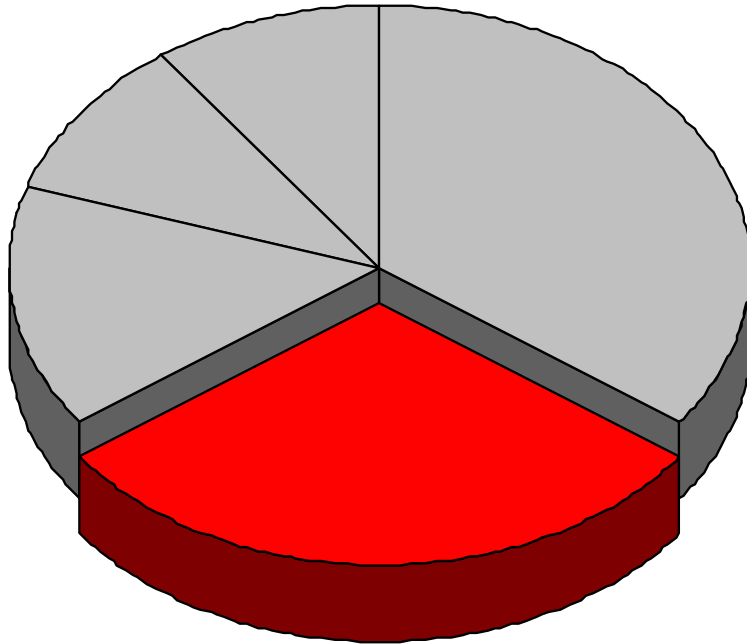
# CREDIT SCORE

**How long do delinquencies stay?**

# Delinquencies on Credit Reports

- Bankruptcies
  - ... Chapter 7 & 11 10 Years from filing date
  - ... Chapter 13 7 Years from filing date
- Tax Liens\* 7 Years from date satisfied
- Late Payments 7 Years
- Charge-offs 7 1/2 Years from 1st late pay
- Judgments 7 Years or S.O.L.
- Inquiries 2 Years

## 2. Revolving Debt Ratio



**30%**  
of  
Credit Score

# Revolving Debt Ratio

- Cards
- ...Share debt among many cards
  - ...Use each every 6 months
  - ...Do not close credit cards
  - ...Pay-off before closing date
  - ...Get added as an authorizer user

# Revolving Debt Ratio

Credit  
Limit

...Ask for credit limit increases

...Maintain balances below 10%

...Make sure the limit is reported



# Revolving Debt Ratio

Spouse

...Keep credit separate from  
spouse

...Transfer debt to one spouse

# Revolving Debt Ratio

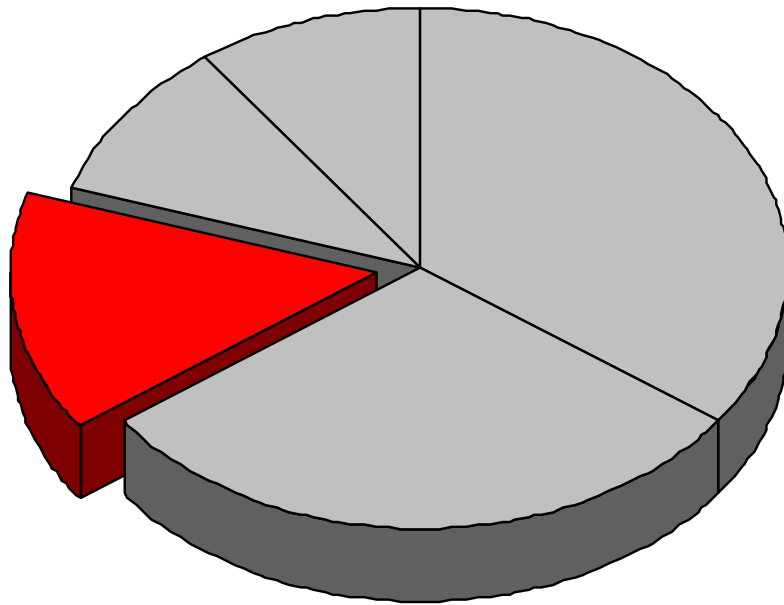
Business

...Utilize Business Credit!

You don't need to be IBM to get approved!

...Reports don't distinguish  
personal from business

### 3. Average Age of Credit File



**15%**  
of  
Credit Score

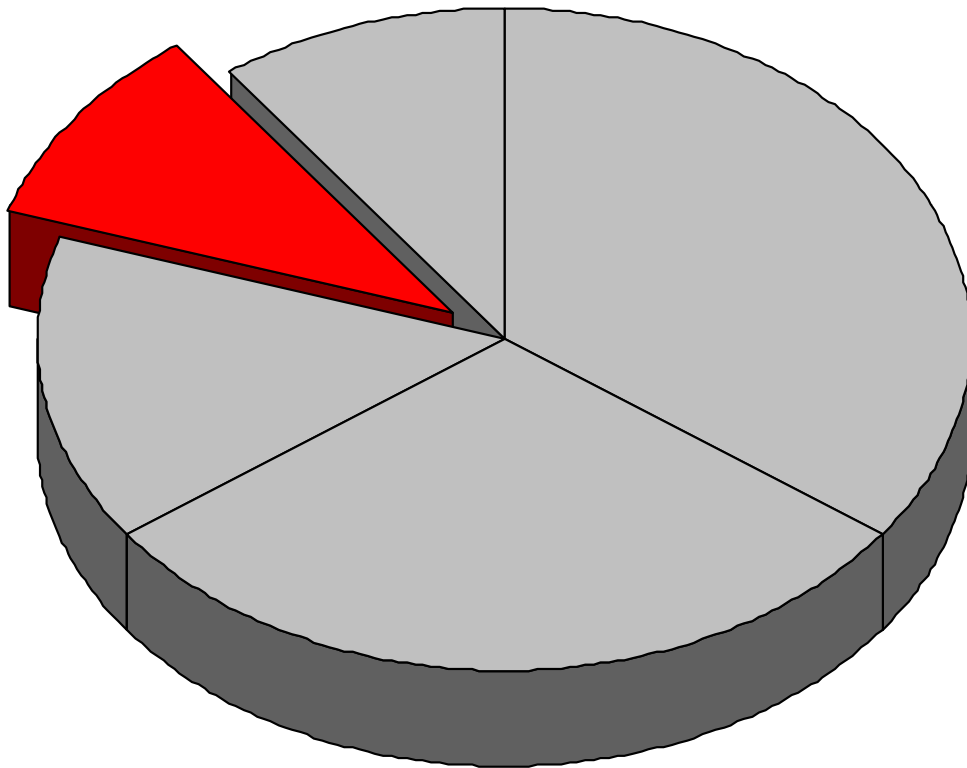
# Average Age of Credit File

- The longer the history, the better

# Average Age of Credit File

- The longer the history, the better
- Hold onto old credit cards

## 4. The Mix of Credit



**10%**  
of  
Credit Score

# The Mix of Credit

- A mixture is best

# The Mix of Credit

- A mixture is best
- 3 to 5 revolving credit cards

( if 850 is your dream )



# The Mix of Credit

- A mixture is best
- 3 to 5 revolving credit cards
- A mortgage account

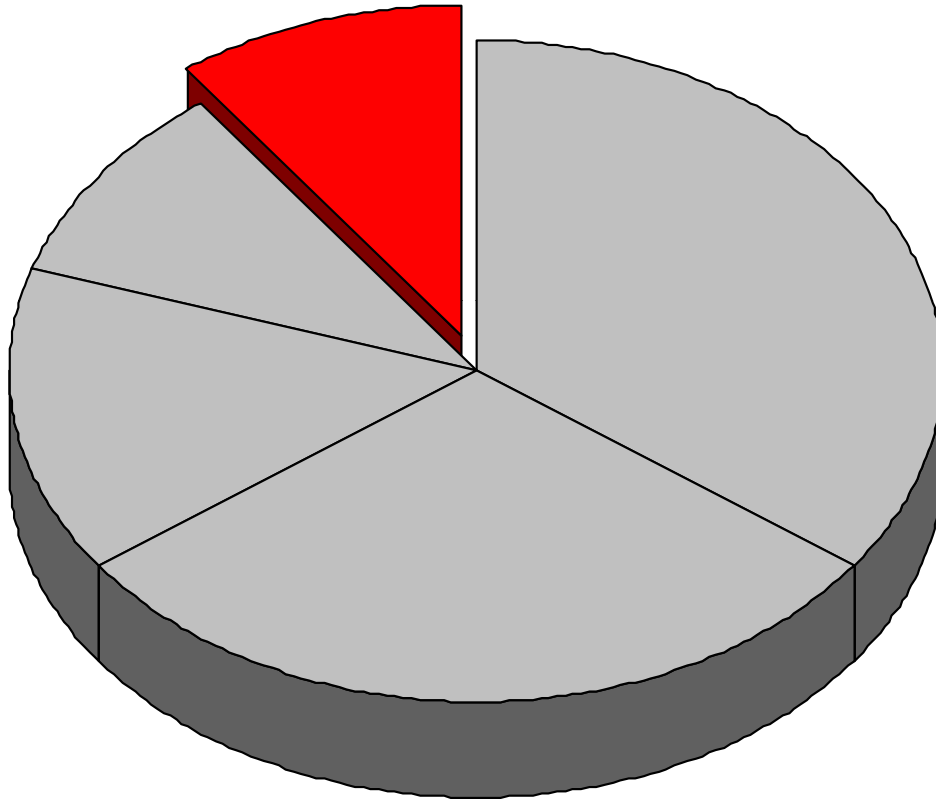
# The Mix of Credit

- A mixture is best
- 3 to 5 revolving credit cards
- A mortgage account
- Auto loan

# The Mix of Credit

- A mixture is best
- 3 to 5 revolving credit cards
- A mortgage account
- Auto loan
- Equity lines of credit

## 5. Inquiries



**10%**  
of  
Credit Score

# Inquiries

- Inquiries affect the score for 1 year ( stays for 2 )

# Inquiries

- Inquiries affect the score for 1 year
- Inquiries can cost 0 – 50 points

# Inquiries

- Inquiries affect the score for 1 year
- Inquiries can cost 0 – 50 points
- Score is only reduced for 1st 10 inquiries

# Inquiries

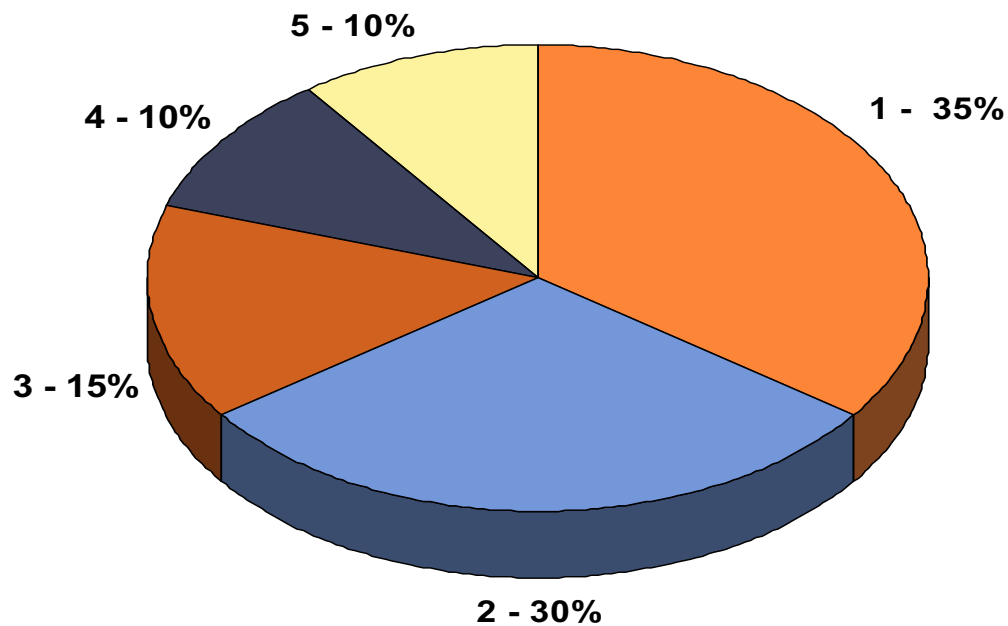
- Inquiries affect the score for 1 year
- Inquiries can cost 0 – 50 points
- Score is only reduced for 1st 10 inquiries
- Auto & mortgage inquiries
  - ... have a 30 day buffer period
  - ... within a 45 day period are treated as 1



# Inquiries

- Inquiries affect the score for 1 year
- Inquiries can cost 0 – 50 points
- Score is only reduced for 1st 10 inquiries
- Auto & mortgage inquiries
  - ... have a 30 day buffer period
  - ... within a 45 day period are treated as 1
- Many inquiries don't count
  - ... personal
  - ... promotional & job related
  - ... insurance & account reviews

# Credit Score Components



1. Past Delinquencies
2. Debt Ratio
3. Average Age of File
4. Mix of Credit
5. Inquiries

# CREDIT SCORE

**Prescreening is PRIMETIME**

**Credit Crunch has Come!**

**Freddie Imposes Penalties!**

**Credit more important than Ever!**