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Top 5 things to know about credit

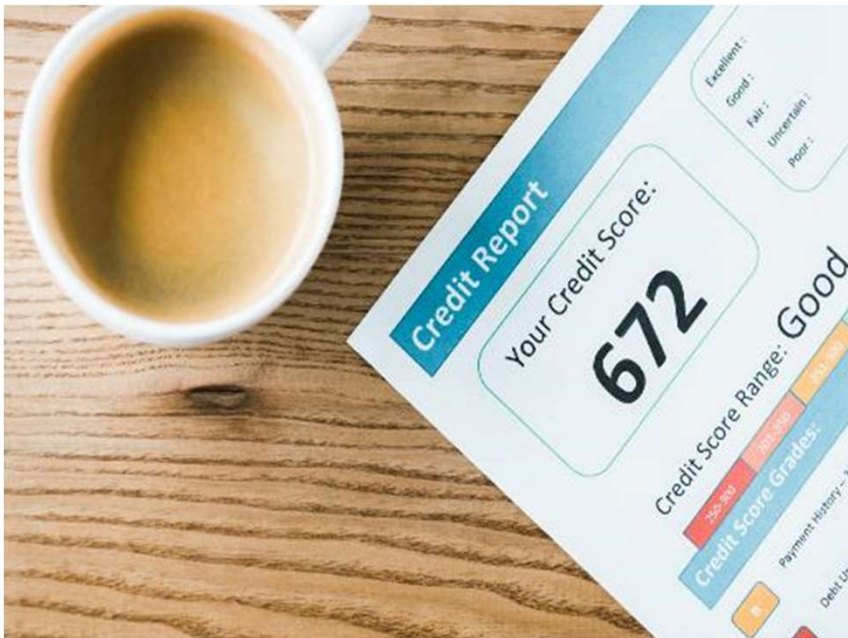
Knowledge and strategies you can use to help your clients win at the credit game

5. Basic credit info

What is credit?

Your credit report is a repository of information of how well you pay back someone you owe, how much debt you have and any financial judgments or liens.

Think of it as the report card of your payment history.



Who collects my payment data?

Collectively they are known as “The Big Three”

Credit Bureaus



Equifax

- The oldest – founded in 1899
- Collects data on 800 million consumers
- Revenue of \$3.1B



Experian

- Founded in 1968
- Collects data on 1 billion consumers
- Revenue of \$5.372B



Trans Union

- Founded in 1968
- Collects data on 1 billion consumers
- Revenue of \$1.3B

What is not in credit scores?

- Age
- Income
- Medical information
- Race, religion, nationality
- Bank account information
- Gender
- Debit card transactions

Who uses credit scores?

- Any company where you've applied for a loan
- Landlords
- Utility companies
- Insurance companies
- Employers

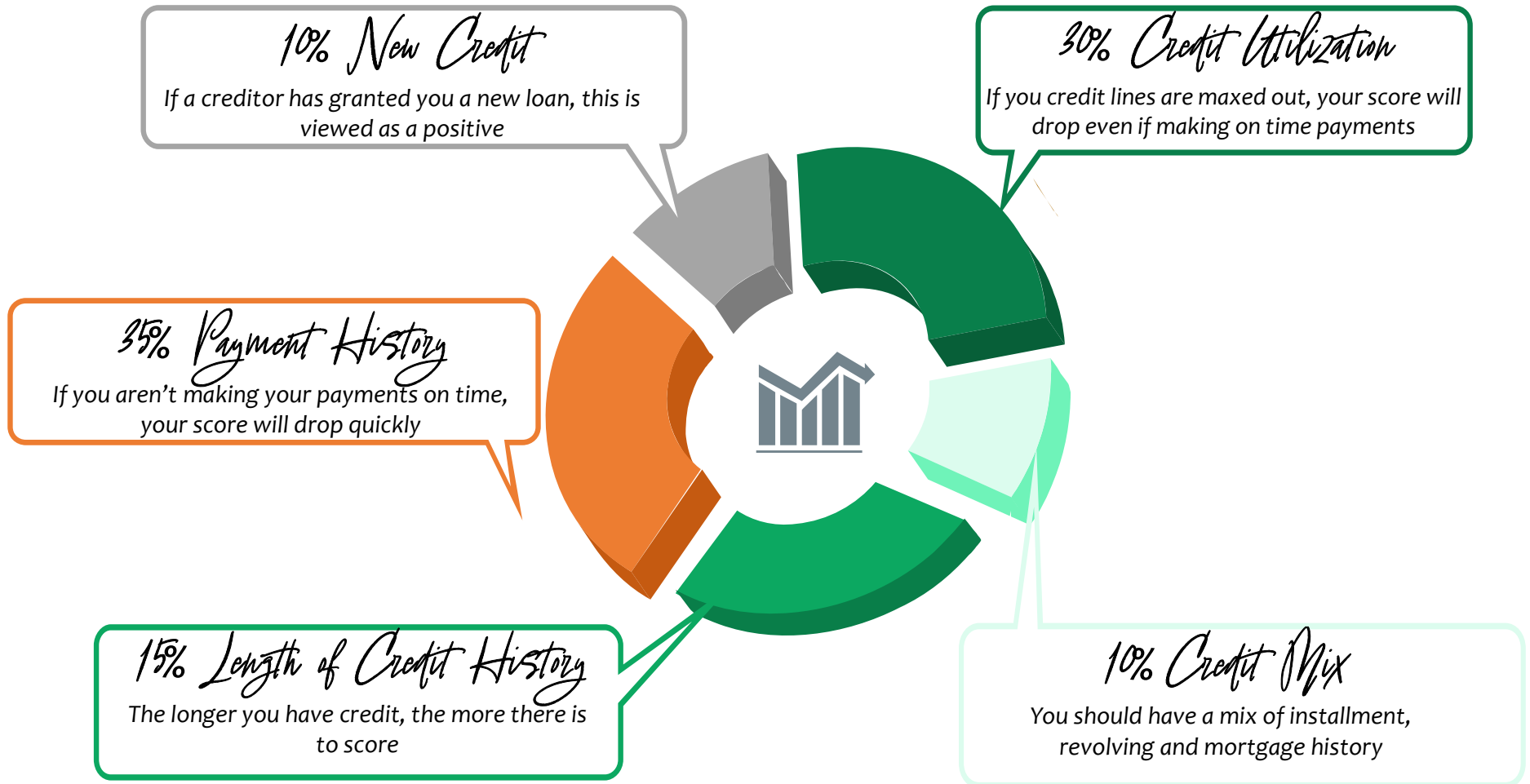
Credit scores determine not only a loan approval, but also the rate for any loan you get. They determine your insurance approval and rates as well.



4. What makes up a score?



What makes up your FICO score



The biggest thing affecting credit scores that I've seen?

High credit card payments significantly reduce a client's monthly budget, making it difficult for them to afford a home.

Instead of putting a large down payment on a house, suggest using that cash to reduce debt.

For example, an additional \$10,000 down payment only lowers the monthly mortgage payment by about \$50-\$60, spread over 30 years.

In contrast, paying off a \$10,000 credit card balance can eliminate monthly payments of over \$200.

30% Credit Utilization

If you credit lines are maxed out, your score will drop even if making on time payments



We can do our clients a real service by showing them that putting less money down on a house, and using available cash to pay down or pay off credit cards, improves their overall monthly budget and improves their score too!

3. There's only one credit score



The creation of the credit score

- Prior to 1989, your credit score could have been based on a wide variety of factors, most of them discriminatory. Did you know that Retailer's credit (now Equifax) used to use information gathered about you from the Welcome Wagon representative? They looked at the quality of your home, furnishings, opinion of your character, etc. Trying to see what was in your report was nearly impossible. It could be absolutely full of errors and incorrect information- you'd never know. Even if you did know, you couldn't correct it.
- In 1989, seeing a business opportunity, the **Fair Issacs Corporation** developed a computer algorithm that based upon the collected data, statistically scored how likely a person was to repay a debt.
- The FICO score was born and has very few competitors. Equifax has Beacon, now called a Pinnacle score. ***The Vantage Score is the newest credit scoring model and was founded in 2006 as a joint venture of the three credit bureaus. I know of no one that uses it.***



How many FICO credit scores do you have?

FICO produces several generations of its general risk score and its industry-specific credit scores, each one unique to each credit reporting bureau. See the tally of the different generations that each bureau has below.

Grand total:
56

	Equifax	TransUnion	Experian	Total
General:	6	7	6	19*
Auto:	3	4	3	10
Mortgage:	1	1	1	3
Credit card:	3	4	3	10
Installment loan:	2	3	2	7
Personal finance:	2	3	2	7
Total:	17	22	17	

Grand total: **56***

*This total includes the general risk score for FICO 9, which is being tested by the credit bureaus and will be available to lenders by early 2015. FICO 9 will eventually add 12 scores to the final tally, as FICO plans on rolling out nine more industry scores for autos, mortgages and credit cards over the next year. This will bring the final tally to 65.

Source: Bankrate.com.

You have multiple credit scores!

There are now 10 models

Since its inception, FICO has released 10 different scoring models, with 10 being released in the past year. FICO 8 is the most used version.

There are different versions

Within each model, there are different versions of the same model, each being industry specific.

Each industry sets its own criteria

Your score for an auto loan will be different from a credit card, which both are different from a mortgage loan.

Mortgage scores are unique

Mortgage scoring uses the oldest versions that no one else uses. In 2020, the mortgage industry began gathering information on updating the current credit scoring model.

Between all three bureaus, there are 28 FICO® Scores that are commonly used by lenders. You can use the chart below as a guideline for which score version is most relevant for the type of credit or loan you're seeking.

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 8	FICO® Auto Score 8
FICO® Auto Score 2	FICO® Auto Score 5	FICO® Auto Score 4
Versions used in credit card decisioning		
FICO® Bankcard Score 8	FICO® Bankcard Score 8	FICO® Bankcard Score 8
FICO® Score 3		
FICO® Bankcard Score 2	FICO® Bankcard Score 5	FICO® Bankcard Score 4
Versions used in mortgage lending		
FICO® Score 2	FICO® Score 5	FICO® Score 4

2. I don't want my credit ran again



Hard inquiries having a huge impact on your score is a myth!

Yes, hard inquiries can impact your credit score, but the effect is usually minimal and temporary. Here's what you need to know:

Understanding Hard Inquiries: A hard inquiry occurs when a lender or creditor checks your credit report as part of their decision-making process. This often happens when you apply for a loan, mortgage, credit card, or other types of credit.

Impact on Your Credit Score:

- **Small Effect:** Generally, a single hard inquiry can lower your credit score by a few points, ***typically less than five***. However, this impact can vary based on your overall credit profile.
- **Temporary Impact:** The effect of a hard inquiry on your credit score is short-lived. Most inquiries stay on your credit report for two years but only affect your score for the first 12 months.
- **Multiple Inquiries:** If you're shopping for a loan, ***multiple inquiries within a short period (usually 14 to 45 days) are often treated as a single inquiry***. This is because credit scoring models understand that you might be rate shopping for the best deal.

<https://www.myfico.com/credit-education/credit-reports/credit-checks-and-inquiries>



Suppose a lender runs credit on July 19th

JULY 2024

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			



A new hard pull does not count in a score until August 17th

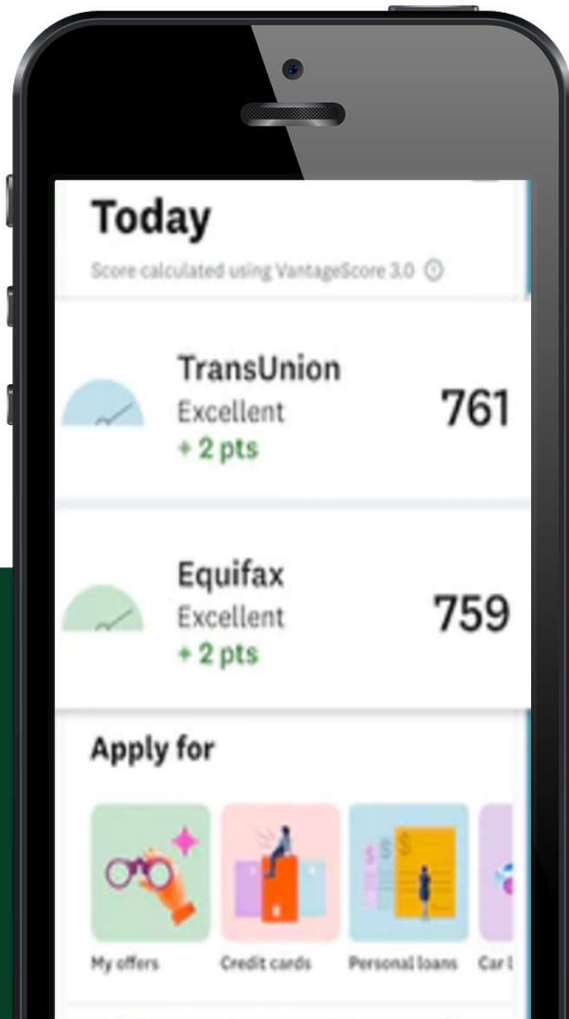
AUGUST 2024

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31



1. Credit Karma says my score is _____

Note – I am NOT picking on Credit Karma. This goes for any free, online credit score site.



*I can get my score online.
That should be good enough, right?*

There are many sites offering “credit monitoring”. Or maybe you have a credit card, bank or credit union offering to provide your credit score or updates when they occur.

I’m sorry to inform you, but those sites are fairly useless when it comes to mortgage lending. And here’s why....

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Versions used in mortgage lending		
FICO® Score 2	FICO® Score 5	FICO® Score 4



Remember a few slides back when I said no one uses Vantage Scores? This is from the Credit Karma website:

Will checking my own credit scores result in a hard inquiry?

No. This is reported as a soft credit check, so it won't lower your scores. You can check your **VantageScore 3.0** credit scores from two major credit bureaus, Equifax and TransUnion, for free at **Credit Karma** as often as you like without affecting your credit scores.

Credit Karma, like most all free online credit scores, use the Vantage Score. Mortgage lenders use FICO scoring models 2, 5 and 4. This is why your Credit Karma score will never match what most lenders use.

95%

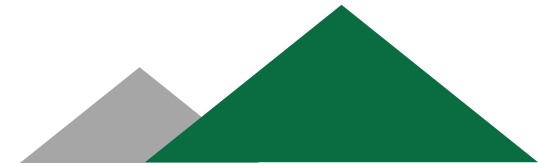
of financial institutions use the FICO scoring model to determine credit worthiness.



Closely held secret....

The formula to calculate credit scores is owned by FICO, is proprietary information, and is guarded as much as the formula for Coca-Cola, the Google Algorithm and the secret recipe for Kentucky Fried Chicken.

When you buy your credit score online, you might as well be buying Dr. Thunder. It's not the real thing.



Best ways to improve credit scores:

Know that credit reports are like a river, constantly flowing. Credit scores can change daily based upon what data a creditor reports, when they report it, and how often it's reported.

1. Get a FREE credit report from annualcreditreport.com. Doesn't give scores, but shows EXACTLY what is being reported.
2. Try to get collections off the report. A single collection reported just one time can drop a score by 100 points! As of July 2022, medical collections must be removed once it's paid.
3. Set up all payments on an automatic pay.
4. Reduce credit utilization. I've had many clients pay down credit cards and drastically improve scores within 30 days. DO NOT pay credit cards down to a zero balance. Leave at least \$10-25 on the card. A small minimal balance will score better than a zero balance.



THANK YOU!

Let's stay in touch:



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