

FICO Credit Scoring

FICO is an acronym for Fair Isaac Corporation.

FICO Credit Scoring is a method developed by Fair Isaac & Co. to evaluate your 'credit worthiness'.

There are really three FICO scores computed to find my FICO Score. They are found by data provided by each of the three bureaus - Experian, Trans Union and Equifax. Some lenders use one of these three scores, while other lenders may use the middle score.

While the most widely-known score in the United States is FICO (which is most widely used in the mortgage industry), there are many others, such as NextGen and Vantage Score.

A credit score attempts to judge the likelihood that a prospective borrower will fail to repay a loan or other credit commitment over a specified period of time. Credit scores are based on the information in an individual's credit report. Lenders use credit scores to evaluate the potential risk posed by lending money to consumers in an attempt to limit business losses related to risk.

Some of these uses include determining who qualifies for a loan, assigning an interest rate, assigning credit limits, and managing accounts that are already open (for example, treatment of accounts that are in default).

The FICO scores are designed to indicate the likelihood that a borrower will be delinquent within the next 24 months. No public information is available to determine what the scores mean in terms of statistics. A separate score, BNI, is used to indicate likelihood of bankruptcy.

If your FICO Credit Score is marginally low, or definitely low, you should consider credit repair before you apply for any new credit, whether that would be a home Equity Line, Auto Purchase or Student Loan. Credit card debt consolidation under your own motivation is probably the most effective repair. Other credit consolidation beside credit card consolidation may be in order, but if your FICO Credit Score is lower than desired Credit Cards are the most likely point to attack first.

The three major credit reporting agencies (also often, but inaccurately referred to as credit bureaus) in the United States, (Equifax, Experian and TransUnion) calculate their own credit scores. These versions, while all developed for the agencies by Fair Isaac, differ and are periodically updated to reflect current consumer repayment behavior. The NextGen Scores are the most recent scores, but creditors vary in which version they prefer to use.

Each of the credit reporting agencies has developed its own version of the credit score intended to compete with Fair Isaac's score. Although not as widely used, these scores (for example Trans Union's "TransRisk" score or Experian's "ScoreX" score) are less expensive than the FICO score. These scores are often derisively referred to by consumers and lenders as "FAKO" scores, for they do not use official Fair Isaac methodologies.

Fair Isaac offers scoring models for the U.S., Canada, and South Africa. It also offers a "Global FICO" for many other countries.

Although the exact formulae for calculating credit scores are closely guarded secrets, Fair Isaac has disclosed the following components and the approximate weighted contribution of each:

- 35% punctuality of payment in the past (only includes payments later than 30 days past due)
- 30% capacity used: the ratio of current revolving debt (credit card balances, etc.) to total available revolving credit (credit limits)
- 15% length of credit history
- 10% types of credit used (installment, revolving, consumer finance)
- 10% recent search for credit and/or amount of credit obtained recently

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