FICO™

Understanding FICO® Scores

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Introduction to Credit Scoring

When you apply for credit—such as a credit card, auto loan or mortgage—the company from which you are seeking credit checks your credit report from one or more of the three major consumer reporting agencies. In addition to your credit report(s), they will most likely use a credit score, such as a FICO® Score, in their evaluation of risk before lending their money to you. FICO® Scores are used in 90% of lending decisions.

Each lender has its own process and policies for making decisions when reviewing a credit application. Most lenders consider a FICO® Score along with additional information, either from one or more of your credit reports or from supplemental information you provide with your application, such as your income.

Some lenders are conservative, meaning they only want to lend to the least risky consumers. Other lenders are happy to work with consumers who have less-than-ideal credit histories.

When evaluating your credit risk, the items that lenders generally pay the most attention to are:

- Your FICO® Score
- Your payment history – to see if you have paid your bills on time
- Your current debt – to see if you are able to reasonably take on more debt
- Whether you have had any collection accounts
- Any public records, such as bankruptcies, judgments and liens
- The types of financing you have successfully managed
- The length of your credit history
- Recent activity, including new accounts and credit inquiries by other lenders
- Your income – to determine your ability to make required payments

Based on this information, a lender will decide whether to approve or decline your credit application. If they approve it, they will set your credit terms, such as interest rate, credit limit and down payment requirement.

What's in Your Credit Reports

Lenders regularly provide information to consumer reporting agencies about the type of credit account you have and how you pay your bills. This information forms the basis for your credit report, which details your credit history as it has been reported to the consumer reporting agency by lenders who have extended credit to you in the past. Every U.S. consumer typically has three reports—one at each of the three major U.S. consumer reporting agencies (Equifax, TransUnion, and Experian). Often, lenders report details of your credit history to more than one consumer reporting agency.

Your credit report lists what types of credit you use, the length of time your accounts have been open, and whether you've paid your bills on time. It also tells lenders how much credit you've used and whether you're seeking new credit.

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Your credit report contains many pieces of information – see below for details.
Your FICO® Scores summarize your credit report information into a single number that lenders can use to assess your credit risk quickly, fairly and consistently. That is a big part of the reason that FICO® Scores are so useful to lenders and borrowers alike.

All credit reports contain basically the same types of information:

- **Personal Information**
  Your name, address, Social Security number, date of birth and employment information. This information is not used in calculating FICO® Scores; it is only used to identify you. Updates to this information come from information you supply to your lenders.

- **Your Credit Accounts**
  Most lenders report information about each account you have established with them. They report the type of account (bank credit card, auto loan, mortgage, etc.), the date you opened the account, your credit limit or loan amount, the account balance, and your payment history.

- **Requests for Credit**
  When you apply for a loan, you authorize your lender to ask for a copy of your credit report(s). This is how inquiries appear on your reports. Your credit reports list the inquiries that lenders have made for your credit report(s) within the last two years.

- **Public Record and Collection Items**
  Consumer reporting agencies also collect information on overdue debt from collection agencies and public record information such as bankruptcies, foreclosures, tax liens, garnishment, legal suits and judgments from state and county courthouses. In general, these items remain on your credit report for 7 to 10 years.

Checking Your Credit Reports for Errors

Because FICO® Scores are based on the information in your credit reports, it is very important to make sure that the credit report information is accurate. You should review your credit report from each consumer reporting agency (CRA) at least once a year and before making any large purchases, such as a home or car.

You have the right to obtain one free credit report each year from each of the consumer reporting agencies through **www.AnnualCreditReport.com**. Please note that your free credit report will not include your FICO® Score.

If you find an error

If you find an error on one or more of your credit reports, contact the consumer reporting agency and the organization that provided the information to the agency. Both parties are responsible for correcting inaccurate or incomplete information in your report as required by the Fair Credit Reporting Act.

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Fixing credit report errors

The follow steps will help facilitate that mistakes get corrected as quickly as possible.

1. Tell the CRA in writing what information you believe is inaccurate and request that they fix it. This is called initiating a credit report "dispute."

   The CRA must investigate the item(s) in question—usually within 30 days—unless they consider your dispute frivolous. Include copies (NOT originals) of documents that support your position.

   In addition to providing your complete name and address, your letter should:

   - Clearly identify each item in your report that you dispute.
   - State the facts and explain why you dispute the information.
   - Request deletion or correction.

   You may want to enclose a copy of your report with the items in question circled. Send your letter by certified mail, return receipt requested, so you can document that the CRA received your correspondence. Keep copies of your dispute letter and enclosures. Each of the three major consumer reporting agencies offers you the ability to initiate a dispute online in order to correct errors in your credit report.

2. Write the appropriate creditor or other information provider, explaining that you are disputing the information provided to the bureau.

   Again, include copies of documents that support your position. Many providers specify an address for disputes. If the provider again reports the same information to a CRA, it must include a notice of your dispute. Request that the provider copy you on correspondence they send to the CRA. Expect this process to take between 30 and 90 days.

In many states, you will be eligible to receive a free credit report directly from the CRA, once a dispute has been registered, in order to verify the updated information. Contact the appropriate CRA to see if you qualify for this service.

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The Basics of FICO® Scores

Overview of FICO® Scores

FICO® Scores are one of many factors nearly all lenders in the U.S. consider when they make key credit decisions. In fact, a US News and World Report article stated that "The FICO Score is the No. 1 piece of data to determine how much you'll pay on a loan and whether you'll get credit." Such decisions include whether to approve your credit application, what credit terms to offer you and whether to increase your credit limit once your credit account is established.

FICO® Scores are used by thousands of creditors including the largest lenders, making it the most widely used credit score. Experts estimate that FICO® Scores are used in 90% of lending decisions.

While FICO® Scores are used in 90% of lending decisions, lenders may consider other factors when making credit decisions. Other factors lenders might use include: information you provided on your credit application, how much you earn, your regular expenses, and how you manage your credit, checking and savings accounts.

FICO® Scores can be used in other decisions, too. Your FICO® Scores may be used when you apply for a cell phone account, cable TV and utility services, for example.

What are FICO® Scores?

When you accept new credit and manage it diligently by consistently paying as agreed, you demonstrate to lenders that you represent a good credit risk. Lenders use your credit history as a way of evaluating how well you've managed your credit to date.

A FICO® Score is a three-digit number calculated from the credit information on your credit report at a consumer reporting agency (CRA) at a particular point in time. It summarizes information in your credit report into a single number that lenders can use to assess your credit risk quickly, consistently, objectively and fairly. Lenders use your FICO® Scores to estimate your credit risk—how likely you are to pay your credit obligations as agreed. And it helps you obtain credit based on your actual borrowing and repayment history, without consideration of prohibited types of information such as race or religion.

Your FICO® Scores from each agency may be different because FICO® Scores are based solely on the specific credit information in that agency's credit file, and not all lenders report to all three CRAs. Even in instances where the lender reports to all three CRAs, the timing of when information from credit grantors is updated to your credit file may create differences in your score across the three CRAs.

In addition to the three-digit number, a FICO® Score includes "score factors" which are the top factors that affected the score. These factors reflect information from your credit report which adversely impacted your score. Having a good FICO® Score can put you in a better position to qualify for credit or better terms in the future.

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Applying for Credit

When you apply for credit, your FICO® Scores can influence the credit limit, interest rate, loan amount, rewards programs, balance transfer rates, and other terms that lenders will offer you.

FICO® Scores are used by lenders in connection with a wide variety of credit products including:

- Credit Cards
- Auto Loans
- Mortgages
- Home Equity Lines & Loans
- Personal Loans & Lines of Credit
- Student Loans

How FICO® Scores Help You

A FICO® Score gives lenders a fast, objective and consistent estimate of your credit risk. Before the use of scoring, the credit granting process could be slow, inconsistent and unfairly biased. Here are some ways FICO® Scores benefit you.

Get credit faster

FICO® Scores can be delivered almost instantaneously, helping lenders speed up credit card and loan approvals. This means when you apply for credit, you'll get an answer more quickly, even within seconds. Even a mortgage application can be approved much faster for borrowers who score above the lender's minimum score requirement. FICO® Scores also allow retail stores, internet sites and other lenders to make "instant credit" decisions. Keep in mind that FICO® Scores are only one of many factors lenders consider when making a credit decision.

Credit decisions are unbiased

Using FICO® Scores, lenders can focus on the facts related to credit risk, rather than their personal opinions or biases. Factors such as your gender, race, religion, nationality and marital status are not considered by FICO® Scores. So when a lender uses your FICO® Score, it is getting an evaluation of your credit history that is fair and objective.

Older credit problems count for less

If you have had problems paying bills in the past, it won't haunt you forever (unless you continue to pay bills late). The impact of past credit problems on your FICO® Scores fades as time passes and as recent good payment patterns show up on your credit report.

A higher FICO® Score may save you money

When you apply for credit – whether it's a credit card, a car loan, a personal loan or mortgage – lenders need to understand how risky you are as a borrower in order to make a good decision. Your FICO® Scores may affect not only a lender's decision to grant you credit, but also how much credit and on what terms (interest rate, for example). Keep in mind that FICO® Scores are only one of many factors lenders consider when making a credit decision.

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A higher FICO® Score can help you qualify for better rates from lenders—generally, the higher your score, the lower your interest rate and payments. The difference between a FICO® Score of 620 and 760, for example, can be tens of thousands of dollars over the life of a loan.

Consider these two examples:

Two different people are borrowing $230,000 on a 30-year mortgage. A borrower with a FICO® Score of 760 could pay **$211 less each month** in interest as compared to a borrower with a FICO® Score of 630. That's a savings of $75,960 over the life of the loan.

On a $20,000, 48-month auto loan, the borrower with a FICO® Score of 720 could pay **$131 less each month** in interest as compared to a borrower with a FICO® Score of 580. That's a savings of $6,288 over the life of the loan.

Even if a FICO® Score is poor, it can put more credit within your reach

Because FICO® Scores allow lenders to more accurately associate risk levels with individual borrowers, they allow lenders to offer different prices to different borrowers. Rather than making strictly "yes-no" credit decisions and offering "one-size-fits-all" credit products, lenders use FICO® Scores to approve consumers who might have been declined credit in the past. Lenders are even able to provide higher-risk borrowers with credit that they are more likely to be able to manage.

Remember, FICO® Scores provide a time-proven and tested numerical representation of information in your credit report. So it's important to check your report for accuracy at all three major U.S. consumer reporting agencies. All U.S. consumers may request their free credit report each year from each CRA at **www.AnnualCreditReport.com**.

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How FICO® Scores Work

A FICO® Score is calculated by a mathematical equation that evaluates many types of information in any of your credit reports at the time the request is made. By comparing this information to the patterns in millions of past credit reports, a FICO® Score provides lenders a consistent and reliable indication of your future credit risk.

FICO® Scores most often fall within a 300-850 score range, while the alternative versions for FICO® Scores—the FICO® Industry Scores—range between 250 and 900. Some lenders use the FICO® Score NG, which will fall within a 150-950 range. Higher FICO® Scores are considered lower risk, and lower FICO® Scores indicate higher risk.

When a lender receives a FICO® Score, key "score factors" are delivered with the score. These key score factors are the top factors that affected the score

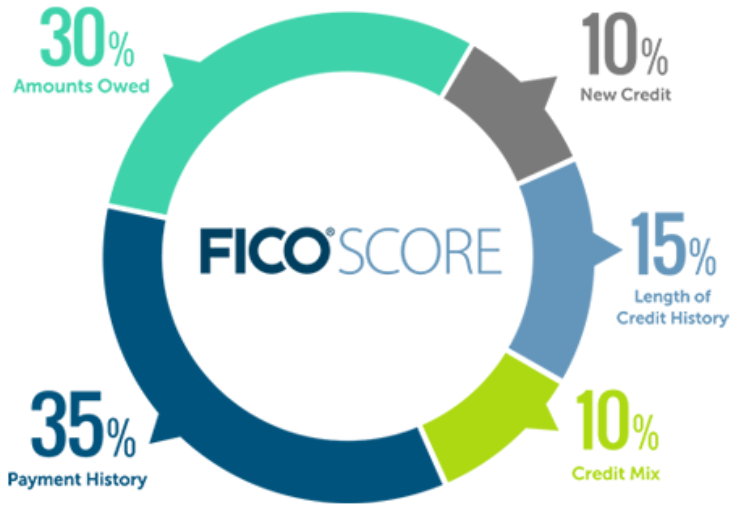
Each lender has its own standards for approving credit applications, including the level of risk it finds acceptable for a given credit product. There is no single "minimum FICO® Score" used by all lenders. If you focus on keeping your FICO® Scores in the mid-700s or higher, you likely will qualify for favorable credit products and terms.

FICO's research shows that people with a high FICO® Score tend to:

- Make all payments on time each month
- Keep credit card balances low
- Apply for new credit only when needed
- Establish a long credit history

What's in FICO® Scores: The 5 Key Ingredients

FICO® Scores take into consideration five main categories of information in a credit report. The chart below shows the relative importance of each category to FICO® Scores.



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Below is a detailed breakdown of each category. As you review this information, keep in mind that:

- FICO® Scores take into consideration all of these categories, not just one or two.
- The importance of any factor (piece of information) depends on the information in your entire credit report.
- FICO® Scores look only at the credit-related information on a credit report.
- FICO® Scores consider both positive and negative information on a credit report.

1. Payment History

Approximately 35% of a FICO® Score is based on this information, which includes:

- Payment information on many types of accounts:
  - Credit cards – such as Visa, MasterCard, American Express and Discover.
  - Retail accounts – credit from stores where you do business, such as department store credit cards.
  - Installment loans – loans where you make regular payment amounts, such as car loans and mortgage loans.
  - Finance company accounts.
- Public record and collection items – reports of events such as bankruptcies, foreclosures, lawsuits, wage attachments, liens and judgments.
- Details on late or missed payments ("delinquencies") and public record and collection items.
- The number of accounts that show no late payments or are currently paid as agreed.

2. The Amounts You Owe

Approximately 30% of a FICO® Score is based on information which evaluates indebtedness. In this category, FICO® Scores take into account:

- The amount owed on all accounts.
- The amount owed on different types of accounts.
- The balances owed on certain types of accounts.
- The number of accounts which carry a balance.
- How much of the total credit line is being used on credit cards and other revolving credit accounts.
- How much is still owed on installment loan accounts, compared with the original loan amounts.

Credit utilization, one of the most important factors evaluated in this category, considers the amount you owe compared to how much credit you have available. For example, if you have a $2,000 balance on one card and a $3,000 balance on another, and each card has a

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$5,000 limit, your credit utilization rate would be 50%. While lenders determine how much credit they are willing to provide, you control how much you use. FICO's research shows that people using a high percentage of their available credit limits are more likely to have trouble making some payments now or in the near future, compared to people using a lower level of credit.

Having credit accounts with an outstanding balance does not necessarily mean you are a high-risk borrower with a low FICO® Score. A long history of demonstrating consistent payments on credit accounts is a good way to show lenders you can responsibly manage additional credit.

3. Length of Credit History

Approximately 15% of a FICO® Score is based on this information.

In general, a longer credit history will increase a FICO® Score, all else being equal. However, even people who have not been using credit long can get a good FICO® Score, depending on what their credit report says about their payment history and amounts owed. Regarding length of history, a FICO® Score takes into account:

- How long credit accounts have been established. A FICO® Score can consider the age of the oldest account, the age of the newest account and the average age of all accounts.
- How long specific credit accounts have been established.
- How long it has been since you used certain accounts.

4. New Credit

Approximately 10% of a FICO® Score is based on this information.

FICO's research shows that opening several credit accounts in a short period of time represents greater risk—especially for people who do not have a long credit history. In this category a FICO® Score takes into account:

- How many new accounts have been opened.
- How long it has been since a new account was opened.
- How many recent requests for credit have been made, as indicated by inquiries to the consumer reporting agencies.
- Length of time since inquiries from credit applications were made by lenders.
- Whether there is a good recent credit history, following any past payment problems.

Looking for an auto, mortgage or student loan may cause multiple lenders to request your credit report, even though you are only looking for one loan. In general, FICO® Scores compensate for this shopping behavior in the following ways:

- FICO® Scores ignore auto, mortgage, and student loan inquiries made in the 30 days prior to scoring. So, consumers who apply for a loan within 30 days, the inquiries won't affect the score while rate shopping.

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- After 30 days, FICO® Scores typically count inquiries of the same type (i.e., auto, mortgage or student loan) that fall within a typical shopping period as just one inquiry when determining your score.

5. Types of Credit in Use

Approximately 10% of a FICO® Score is based on this information.

FICO® Scores consider the mix of credit cards, retail accounts, installment loans, finance company accounts and mortgage loans. It is not necessary to have one of each, and it is not a good idea to open a credit account you don't intend to use. In this category a FICO® Score takes into account:

- What kinds of credit accounts are on the credit report? Whether there is experience with both revolving (credit cards) and installment (fixed loan amount and payment) accounts, or has the credit experience been limited to only one type?
- How many accounts of each type exist? A FICO® Score also looks at the total number of accounts established. For different credit profiles, how many is too many will vary depending on the overall credit picture.

What FICO® Scores Ignore

FICO® Scores consider a wide range of information on a credit report. However, they do NOT consider:

- Race, color, religion, national origin, sex and marital status. U.S. law prohibits credit scoring from considering these facts, or considering any receipt of public assistance, or the exercise of any consumer right under the Consumer Credit Protection Act.
- Age. Other types of scores may consider age, but FICO® Scores do not.
- Salary, occupation, title, employer, date employed or employment history. Lenders may, however, consider this information separately.
- Where the consumer lives.
- Any interest rate being charged on a particular credit card or other account.
- Any items reported as child/family support obligations.
- Certain types of inquiries (requests for your credit report or score). FICO® Scores do not count any inquiries initiated from checking one's own credit report, any inquiries from employers or insurance companies, or any inquiries lenders make without the consumer's knowledge.
    - Checking your own credit report and scores will never affect your FICO® Scores.
- Any information not found in the credit report.
- Any information that is not proven to be predictive of future credit performance.

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Financial Health Management

How you manage your financial health over time is important. Read through the following information about financial health management.

Payment Due Dates

Timely bill payments are important

In general, people who continually pay their bills on time and demonstrate a good payment history tend to appear less risky to lenders. On the other hand, late payments and collections can have a major impact on FICO® Scores. Also, note that closing an account on which you previously missed a payment, will not remove it from your credit report. The missed payment will stay on a report for seven years.

The quantity of late payments, and duration of being current on payments

FICO® Scores are affected by the number of times payments are late, as well as the length of time that bills are paid on time (by their due dates). In addition, the higher the balances on past due accounts on a person's credit reports, generally the greater the risk to lenders.

If you are having trouble paying your bills—sources for assistance

In some cases creditors will work with their borrowers to modify payment structures to help borrowers make timely payments. In addition, non-profit credit counseling agencies can sometimes work with creditors to lower monthly payments.

Managing Accounts...

Keeping balances low

High balances on your credit cards and other revolving credit can lower FICO® Scores. Likewise, a person with an installment loan balance that is high in relation to the original loan amount tends to be viewed as risky to lenders.

Credit card management

In general, having credit cards doesn't hurt FICO® Scores if payments are made on time. People without credit cards, for example, tend to be slightly higher risk than people who have shown they can manage credit cards responsibly.

Opening new cards

While the available credit amount might increase, opening a new credit card could lower a FICO® Score. New accounts can lower the average time credit accounts have been established, which can lower a FICO® Score. Even if credit has been used for a long time, opening a new account can still lower a FICO® Score.

Closing credit cards

Owing the same amount but having fewer open accounts may actually lower a FICO® Score. Closing unused cards is fine, but keeping balances low on open accounts will avoid

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negatively impacting a FICO® Score.

It's OK to request and check your own credit report

Every 12 months every consumer is entitled by law to one free credit report from each consumer reporting agency through **www.AnnualCreditReport.com**. Checking your own credit report will not harm your FICO® Scores.

When Seeking New Credit...

Rate shopping within a short period of time

When looking for a mortgage, student loan or an auto loan, people often check with several lenders to find the best rate. This can cause multiple lenders to request their credit report(s), even though they're only looking for one loan. These requests are referred to as inquiries, and in general, frequent inquiries indicate higher risk (and therefore could negatively impact a FICO® Score). However, FICO® Scores typically account for this rate shopping behavior by treating multiple inquiries from auto, mortgage, or student loan lenders within a short period of time as a single inquiry. Because of that, rate shopping within a reasonable shopping period will have less of an impact on a FICO® Score.

Monitoring the Score is Important

FICO® Scores are based on the information in the credit reports at one point in time and can change whenever credit report changes. But a FICO® Score probably won't change much from one month to the next. However, certain events such as bankruptcy or late payments can lower a FICO® Score fast. That's why it's a good idea for consumers to check and monitor their FICO® Scores six to twelve months before applying for a big loan, so they can know their FICO® Scores and better understand how FICO® Scores work. For consumers who are actively working to improve their understanding of FICO® Scores, checking their scores quarterly or even monthly is appropriate.

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Credit Inquiries and Their Effect on FICO® Scores

In some cases, but certainly not all, a search for new credit can mean a person poses a greater credit risk. This is why FICO® Scores count inquiries—requests a lender makes for your credit report or scores when you apply for credit. FICO® Scores consider inquiries very carefully, as not all inquiries are related to credit risk.

What is an "Inquiry"?

When you apply for credit, you authorize those lenders to ask or "inquire" for a copy of your credit report from a CRA. When you later check your credit report, you may notice that their credit inquiries are listed. You may also see listed there inquiries by businesses that you don't know, such as lenders who have mailed you a credit card solicitation. The only inquiries considered by FICO® Scores are the ones that result from your applications for new credit.

How do They Affect FICO® Scores?

FICO® Scores consider inquiries very carefully, as not all inquiries are related to credit risk. Typically, the presence of inquiries on a credit report has only a small impact on FICO® Scores, carrying much less importance than late payments, the amount owed, and the length of time a person has used credit.

There are four important facts to know about inquiries:

- Inquiries usually have a small impact. For most people, one additional credit inquiry will take less than five points off their FICO® Score. Much more important for your score are factors like: how timely you pay your bills and your overall debt burden as indicated on your credit report.

- Many types of inquiries are ignored completely. FICO® Scores do not count inquiries when you order your credit report or credit score. Also, FICO® Scores do not count inquiries a lender has made for your credit report or score in order to make you a "pre-approved" credit offer, or to review your account with them, even though you may see these inquiries on your credit report. Inquiries that are marked as coming from employers or insurers are not counted either. FICO® Scores only consider inquiries that are a result of you applying for new credit.

- FICO® scoring models largely use specialized logic that accounts for rate shopping for student, auto and mortgage loans. In general, student loan, auto and mortgage-related inquiries that occur 30 days prior to scoring have little or no effect at all on FICO® Scores.

  If you were to shop for a car loan and home loan during the same shopping period, the auto loan inquiries would generally be counted as one inquiry, and the mortgage loan inquiries would be counted separately as another inquiry. This is because they represent two separate searches for credit.

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In terms of the impact on FICO® Scores, it's best to perform rate shopping in a reasonably short period.

- FICO® Scores consider inquiries less heavily as time passes, provided no new inquiries are added.

Minimizing the Impact of Inquiries on a Score

Shorter-period rate shopping.

Generally, FICO® Scores distinguish between a search for a single loan and a search for many new credit lines, in part by the length of time over which inquiries occur.

Opening new accounts.

Opening new accounts can lower a FICO® Score in the short term.

Note that it's OK to request and check your own credit reports and your FICO® Scores.

This won't affect your FICO® Scores, as long as you order your credit report directly from the consumer reporting agency or through an organization authorized to provide credit reports to consumers.

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Myths Concerning FICO® Scores

Myth: All credit scores are the same

Truth: Not all credit scores are FICO® Scores. Because FICO® Scores are the most widely used credit scores—used in over 90% of lending decisions—they give you a more accurate look at how lenders will evaluate your credit risk when you apply for credit or a loan.

Myth: A FICO® Score Determines Whether or Not I Get Credit.

Truth: Lenders use a number of pieces of information about you and about the loan for which you are applying to make credit decisions, including your FICO® Scores. Lenders look at information such as the amount of debt you can reasonably handle given your income, your employment history and your credit history. Based on their analysis of this information, as well as their specific underwriting policies, lenders may extend credit to you even with a low FICO® Score, or decline your request for credit even with a high FICO® Score.

Myth: A Poor FICO® Score will Haunt Me Forever.

Truth: Just the opposite is true. FICO® Scores are indicators of a consumer's risk at a particular point in time. Your FICO® Scores change as new information is added to your credit report and as historical information ages; your FICO® Scores change gradually as you change the way you handle credit. For example, past credit problems impact your FICO® Scores less as time passes. Lenders request a current FICO® Score when you submit a credit application, so they have the most recent information available.

Myth: My FICO® Scores Will Drop if I Apply for New Credit.

Truth: If it does, they probably won't drop much. If you apply for several credit cards within a short period of time, multiple requests for your credit report information (called "inquiries") will appear on your report. Looking for new credit can indicate higher risk to a lender, but your FICO® Scores are not affected by multiple inquiries from auto, mortgage or student loan lenders within a short period of time. Typically, these are treated as a single inquiry and tend to have little impact on your FICO® Scores.

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Myth: Credit Scoring Is Unfair to Minorities.

Truth: FICO® Scores consider only credit-related information. Factors like gender, race, nationality and marital status are not included. In fact, the Equal Credit Opportunity Act (ECOA) prohibits lenders from considering this type of information when issuing credit. Independent research has been done to make sure that FICO® Scores are not unfair to minorities or people with little credit history. FICO® Scores have proven to be an accurate and consistent measure of repayment risk for all people who have some credit history.

Myth: Credit Scoring Infringes on My Privacy.

Truth: FICO® Scores evaluate the same information at which lenders already look—the credit report. A FICO® Score is a number that summarizes your credit risk based on a snapshot of your credit report information. Lenders using FICO® Scores may in fact ask for less information, for instance having fewer questions on the application form.

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Glossary of Credit Terms

Adverse action notice

A notice sent by a lender after denying a person's request for credit based on information in the person's credit report.

Balance

The amount owed on a credit obligation.

Bankruptcy

A proceeding in U.S. Bankruptcy Court that may legally release a person from repaying debts owed, or reduce the amount owed over a few years. Credit reports normally include bankruptcies for up to 10 years.

Charge-off

A declaration by a lender, generally for tax purposes, that an amount of debt is unlikely to be collected, which can happen when a person becomes severely delinquent in repaying a debt. The lender reports to the consumer reporting agencies that it has taken a loss, but the borrower is still responsible for paying back the debt. Also known as a "write-off."

Collection

Attempted recovery of a past-due credit obligation by a lender's collection department or a separate collection agency.

Consumer Reporting Agency (CRA)

See *credit bureau.*

Credit account

A specific lending arrangement between a creditor and borrower that provides the borrower with a loan or a revolving instrument such as a credit card, with an obligation to repay the creditor. Sometimes referred to as a credit obligation.

Credit bureau

An agency that collects and stores individual credit information and sells it for a fee to creditors so they can make decisions on granting loans and other credit activities. Typical clients include banks, mortgage lenders and credit card issuers. Also commonly referred to as consumer reporting agency (CRA), credit reporting agency or credit repository. The three largest credit bureaus in the U.S. are Equifax, Experian and TransUnion.

Credit bureau risk score

A credit score calculated by a credit bureau, based only on the credit history from the person's credit report. FICO® Scores are the leading brand of credit bureau risk scores.

Credit file

The credit records at a credit bureau regarding a given individual. The file may include: the person's name, address, Social Security Number, credit history, inquiries, collection records, and public records such as bankruptcy filings and tax liens.

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Credit history

A record of a person's credit accounts and activities, including how the person has repaid credit obligations in the past.

Credit limit

The amount of credit that a financial institution extends to a borrower. Credit limit also refers to the maximum amount a credit card company will allow someone to borrow on a single card. Credit limits are usually determined based on the applicant's FICO® Score and information contained in their credit application.

Credit obligation

See *credit account*.

Credit report

A detailed report of an individual's credit history as stored in an individual's credit file, prepared by a credit bureau and used by a lender when making credit decisions. Most credit reports include: the person's name, address, credit history, inquiries, collection records, and any public records such as bankruptcy filings and tax liens.

Credit risk

The likelihood that individuals will not pay their credit obligations as agreed. Borrowers who are more likely to pay as agreed pose less risk to creditors and lenders.

Credit score

A statistically-derived number that provides a snapshot of a person's credit risk. FICO® Scores are credit scores and rank-ordering tools—higher scores will correspond to better credit risk than lower scores. Credit risk is the likelihood that the person, compared to other people, will default on a credit obligation. A credit score is usually based only on a person's past and current credit information. Lenders use the scores when making credit decisions at different points in a person's credit lifecycle.

Default

When a debtor (or borrower) is unable or unwilling to meet the legal obligation of debt repayment. Usually an account is considered to be "in default" after being delinquent for several consecutive 30-day billing cycles.

Delinquent

A failure to deliver even the minimum payment on a loan or debt payment on or before the time agreed. Because most lenders have monthly payment cycles, they usually refer to such accounts as 30, 60, 90 or 120 days delinquent.

Equal Credit Opportunity Act (ECOA)

Federal legislation that prohibits discrimination in credit. The ECOA originally was enacted in 1974 as Title VII of the Consumer Credit Protection Act.

Fair Credit Reporting Act (FCRA)

Federal legislation that promotes the accuracy, confidentiality and proper use of information in the files of every "consumer reporting agency". The FCRA was enacted in 1970.

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FICO

FICO, formerly known as Fair Isaac Corporation, is the company that invented FICO® Scores. Starting in the 1950s, FICO sparked a revolution in credit risk assessment by pioneering credit risk scoring for credit grantors. This new approach to measuring risk enabled banks, retailers and other businesses to improve their performance and to expand consumers' access to credit. Today, FICO® Scores are widely recognized as the industry standard for measuring credit risk.

FICO® Industry Score

A type of FICO® Score offered by all three U.S. consumer reporting agencies—Equifax, Experian and TransUnion—that ranges from 250 to 900 and is used by some lenders to address specific types of lending products, such as auto loans or credit cards.

FICO® Scores

Credit bureau risk scores produced using scoring models developed by FICO. FICO® Scores are used by lenders and others to assess the credit risk of prospective borrowers or existing customers, in order to help make credit and marketing decisions. FICO® Scores only use credit report information that has proven to be predictive of credit risk.

FICO® Scores are available through all three major U.S. consumer reporting agencies (credit bureaus).

FICO® Score NG

A type of FICO® Score offered by all three U.S. consumer reporting agencies—Equifax, Experian and TransUnion—that ranges from 150 to 950 and is used by some lenders.

Inquiry

An item on a person's credit report indicating that someone with a "permissible purpose" (under FCRA rules) has previously requested a copy of the person's credit report or credit score. FICO® Scores only consider inquiries by lenders resulting from a person's application for credit; all other inquiries are ignored.

Installment debt

Debt to be paid back at regular intervals over a specified period. Examples of installment debt include most mortgages and auto loans. Sometimes referred to as an "installment account" or an "installment loan."

Late payment

A failure to deliver a loan or debt payment on or before the due date. Also see *Delinquent*.

Permissible purpose

The Fair Credit Reporting Act (FCRA) prohibits a consumer reporting agency (credit bureau) from furnishing an individual's consumer report unless there is a permissible purpose. Permissible purposes include the use of the consumer report in connection with a credit or insurance transaction, for employment purposes, and for account review. The consumer reporting agency may also furnish a consumer report if a consumer gives his or her consent.

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Revolving credit/debt

A line of credit that the borrower can repeatedly use and pay back without having to reapply every time credit is used. Bank credit cards are the most common type of revolving credit account. Other types include department store cards and travel charge cards.

Risk-based pricing

The practice of setting credit terms, such as interest rate or credit limit, based on a person's credit risk is referred to as risk-based pricing. Creditors that engage in risk-based pricing generally offer more favorable terms to borrowers with good FICO® Scores and less favorable terms to borrowers with poor FICO® Scores.

Score

The numeric output from a predictive scoring model. The most common type of score used by lenders is a credit risk score such as a FICO® Score. Also see *Credit score*.

Score factors

Delivered with a consumer's FICO® Score, these are the top areas that affected that consumer's FICO® Scores. The order in which the score factors are listed is important. The first factor indicates the area that most influenced the score and the second factor is the next most significant influence. Addressing some or all of these score factors can benefit the score.

Scoring model

A mathematical formula or statistical algorithm used to predict certain behaviors of prospective borrowers or existing customers relative to other people. A scoring model calculates scores based on data such as information on a consumer's credit report that has proven to be predictive of specific consumer behaviors.

Utilization

The proportion of the balance owed on revolving accounts divided by the available credit limit(s). Utilization is an input used in determining a person's credit score. Typically it is the amount of outstanding balances on all credit cards divided by the sum of their credit limits, and it's expressed as a percentage. For example, if you have a $2,000 balance on one card and a $3,000 balance on another, and each card has a $5,000 limit, your credit utilization rate would be 50%. This ratio may also be calculated for each credit card individually.

Write-off

See *Charge-off*.

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