You know your scores from the three bureaus, but what's your FICO score?

BY CHRIS MILLER

When applying for a credit card, car loan or mortgage, lenders want to know the risk involved before loaning money to a potential customer. Which score are they most interested – Equifax, Experian, or TransUnion? The fact is that 90 percent of lenders, including most of the largest banks, are only interested in the scores generated by the Fair Isaac Corporation (FICO).

There are three FICO scores, one for each of the three credit bureaus in which most people are familiar; Experain TransUnion, and Equifax, and each score is based on information the credit bureau keeps on file about an individual.

"Today, it's more difficult to get financing without a good score. My number one message is to always be aware of your FICO score," said Jeanne Kelly, founder of the professional credit consulting firm The Kelly Group, located in Rhinebeck, NY and Danbury, CT. "There is a difference between a credit score and a FICO score and that's an important message too because people keep purchasing their credit scores."

Before Kelly formed her credit-consulting firm in August 2000, she went from being a married new mom with a new house to a divorced single mother with poor credit living in a cottage on her parents' farm. Kelly went on to be employed as a subcontractor for a credit repair company, researching and educating herself about the credit industry, while repairing her own damaged credit.

Since then, Kelly has been heard on radio discussing the credit crisis and has also been quoted in several newspapers, magazines, and online financial sites such as CNN, Money, and the NY Times.

"When I got divorced, I didn't realize how bad my credit was and there was no way I could buy out my husband from the mortgage," she explained. "I started going to credit repair companies, and researched how to repair credit scores but I couldn't find any bottom line answers and I couldn't find any help."

Kelly noted that after she realized that scores could get adjusted, strengthened, and fixed and that she could get a mortgage, she knew she could help others and opened The Kelly Group.

According to Kelly, she has seen a trend of damaged credit due to the poor economic climate, and cited that what once was considered a good score or risk a couple years ago or so doesn't mean lenders would consider the same score a good risk today.

"In the past ten years, when someone brings me their credit score and I recommend we look at their FICO, I have not seen the FICO be the same or higher," Kelly expressed. "When you purchase those numbers from the three bureaus they're always higher and, in a way, I find that misleading."

According to FICO's Consumer Operations Manager Barry Paperno, FICO scores are produced jointly by the credit bureaus and Fair Isaac Corporation. The bureaus provide credit data while FICO provides each bureau with a scoring formula that calculates a score predicting the likelihood a person would pay all credit obligations on time.

"The importance of the data used in FICO credit scoring varies according to how well the information contributes to predicting a consumer's future credit performance," explained Paperno. "For example, due to its proven higher predictive value, the presence of a late payment on a credit card will take a higher degree of importance in the scoring formula than a credit inquiry. Which, while predictive, is not as effective at predicting future performance."

Five factors determine your FICO score; payment history, which makes up 35 percent; revolving balance, which makes up 30 percent; length of credit, which makes up 15 percent; new credit, which makes up 10 percent and types of credit, which accounts for the final 10 percent.

"By looking at a credit report I could give you tips on how to improve your score," said Kelly. "Some basic tips – don't close credit cards because they're giving you points, you're closing what's available to you and your debt to credit ratio would change. Also, pull them out once in a while and use them. It is good to use your credit in a healthy way."

She added that it's important to remember if you can't afford something, you shouldn't make the purchase, i.e.; putting a vacation on your credit card before saving for trip and its expenses.

Kelly stated that many people got caught up in borrowing against their home instead of paying down the mortgage.

"Now they're upside down because many people's home values are not what they were," she explained. "That was a trap for so many because financing was so easy to obtain."

Everyone makes mistakes from time to time, concerning their credit. Knowing what actually hurts or helps your credit score will help those land a job, secure an apartment or buy their first home.

You most likely would find information about your employer on your report, but having a high or low income has no impact on your credit, but missing the loan payments will.

Not paying insurance, utility and cell phone bills will not have a negative impact. These companies check credit score to figure whether to insure or provide service but they do not report payments to credit agencies. However, if continual defaults on payments are on the radar, the account might be sent to a collection agency that would then report to the credit bureaus.

"If you pay a collection, your score will drop," emphasized Kelly. "You would think the opposite because you're doing the right thing."

She said many of her clients didn't even realize they had a collection sitting on their report. Collections on a report "hibernates," showing an older date. When paid it activates the account, showing new activity on a derogatory item – dropping your credit score.

"My tip is it should only be paid if it can be removed," Kelly said. "The way it could be removed is if you were never notified properly that it was going on your credit report."

Kelly said that people have to know their timing when it comes to paying an account under collections. A paid collections account will look better as time passes but if applying for a mortgage or car loan within a couple or few months, do not pay it until after receiving the loan because it will drop your score.

The Kelly Group always tells their clients that in good times and bad times they should look at their credit. In bad times, people have a tendency to bury their heads in the sand and not open their bills. Kelly stated even if you don't want to look at your credit report, you should because a plan for when things get better needs to be put in place.

"When things are good I still tell my clients they have to look at their report to keep it good and know what they're doing right," she explained. "The bottom line – always being aware of your credit, and using it in a healthy manner will always help you obtain loans when you need them.

To learn more about credit protection, visit www.kgroupconsulting.com