

Credit Scoring Facts and Fallacies

Provided by the credit scoring experts at Fair, Isaac and Company

FALLACY: A poor credit score will haunt me forever.

FACT: Just the opposite is true. A score is a “snapshot” of your credit risk at a particular point in time. It changes as new information is added to your bank and credit bureau files. Scores change gradually as you change the way you handle credit. For example, past credit problems impact your score less as time passes. Lenders request a current score when you apply for credit, so they have the most recent information available.

FALLACY: Credit scoring is unfair to minorities.

FACT: Scoring does not consider your gender, race, nationality or marital status. In fact, the Equal Credit Opportunity Act prohibits lenders from considering this type of information when issuing credit. Independent research has shown that credit scoring is not unfair to minorities or people with little credit history. Scoring has proven to be an accurate and consistent measure of repayment likelihood for all people who have some credit history. In other words, at a given score, non-minority and minority applicants are equally likely to pay as agreed.

FALLACY: Credit scoring infringes on my privacy.

FACT: FICO[®] scores evaluate only information on your credit report, which lenders already use to make credit decisions. A score is simply a numeric summary of the credit risk reflected in that information. In fact, lenders using scores can often ask for less information about you. They may have fewer questions on the credit application form, for example.

FALLACY: My score will drop if I apply for new credit.

FACT: Probably not 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 equate with higher risk, but most credit scores are not affected by multiple inquiries from auto or mortgage lenders that occur within a short period of time. The FICO score treats these as a single inquiry which will have less impact on your credit score.

For more information visit www.myFICO.com/homebuyer.