Frequently Asked Questions: FICO Scores
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National Association of REALTORS® Government Affairs Division
500 New Jersey Avenue, NW, Washington DC, 20001

How is a FICO score computed?	The formula is proprietary information, but FICO has made public the relative importance of 5 categories of information that form the basis of computing the score: • Payment History—35% • Amounts owed—30% • Length of Credit History—15% • New Credit—10% • Types of Credit in Use ("healthy" mix?)—10% A FICO score predicts the likelihood of becoming at least 90 days delinquent on any credit obligation within the next 2 years. http://www.myfico.com/CreditEducation/WhatsInYourScore.aspx
Why are there 3 different FICO scores?	FICO adjusts its FICO score formula for each of the 3 national credit reporting agencies—Experian, Equifax, and TransUnion—to take advantage of their unique data strengths. In addition, not all credit information is reported to all 3 credit bureaus, and there can be errors in a person's credit record, such as information on accounts of other people due to similar names, social security numbers, or addresses. Note, lenders will use the FICO score, but many will augment their credit decision with additional criteria (application data elements for example) they want to consider.
Why does a credit check reduce a FICO score (even if the credit check does not result in new credit)?	FICO's research shows that more credit shopping, resulting in more inquiries, correlates with a higher risk of future default. Consumers for whom there has been no credit check are generally less risky. Not all inquiries will affect the score. When they do, an inquiry has a relatively small impact on a FICO score, typically less than 5 points. The formula only considers inquiries over the last 12 months. Here is a link to more details: http://www.myfico.com/CreditEducation/CreditInquiries.aspx Consumers with more inquiries are more likely to have a future default.

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How does credit shopping affect one's credit score?	The FICO score ignores any mortgage, student loan, or auto loan inquiries made within the previous 30 days. The score also looks for inquiries made in the 11 months before that, and reduces all such inquires within any 45 day window to a single inquiry. http://www.myfico.com/CreditEducation/CreditInquiries.aspx
How long will negative information remain on your credit report?	• Late payments: 7 years [borrowers who use a short sale and "deed in lieu" often have already had their lender report late payments]. • Bankruptcies: 7 years (10 years for full discharge of debt). • Foreclosures: 7 years. Generally speaking, the impact of adverse information on a FICO score lessens over time.
How long will a foreclosure affect your FICO score?	Foreclosures stay on a credit report for 7 years, but the impact lessens over time. If other credit obligations are being met, the FICO score will begin to improve gradually over time. Generally speaking, if a foreclosure is the only negative on the credit report, it will have less impact to a score than will a foreclosure and other negative items posted in the file. A foreclosure could lower the score 100+ points.
How does a short sale or "deed-in-lieu" affect your FICO score?	Generally speaking, short sale, deed-in-lieu and foreclosure will all have a similar impact to the borrower's FICO score. How much the score changes will depend on how the short sale or DIL is reported and on the other information in the credit report. If reported in a way that indicates "not paid as agreed," the FICO score could go down 100+ points. Late payments stay on a credit report for 7 years, but the impact lessens over time.
How does a bankruptcy affect your FICO score?	Bankruptcies stay on your credit report for 7 years (10 years if there is a full discharge of debt). Because they often involve more than one account, bankruptcies generally have a greater negative impact on the FICO score compared to a foreclosure, short sale or "deed-in-lieu."

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How does a loan modification affect your FICO score?	It depends on whether the lender reports it and, if so, how. Note, the U.S. consumer credit reporting system is voluntary. Starting in February 2009, some lenders began to report consumers participating in a loan mod program (using existing code AC to signal partial-payment—not paid as originally agreed). This could significantly lower the FICO score. In November 2009 the credit reporting agencies introduced a new code (CN) to mean "loan modified under a Federal government plan,". The FICO scoring formula currently ignores the CN code, but this could change if FICO researchers find that appearance of the new code is predictive of future credit risk. Generally, data shows that borrowers not paying as originally agreed are more likely to become seriously delinquent in the near future. If the loan modification is reported as the same loan with changes, the score impact should be minimal. If the loan modification is reported as a brand new loan, the score could be affected more by the inquiry, balance, and a new "open date." In either case, if the lender also reports that the borrower has not made payments as originally agreed, the FICO score could go down.
If a credit card issuer reduced your credit limit, or if a mortgage lender reduces your Home Equity Line of Credit (HELOC), how does that affect your FICO score? [See, also, next row for results of a FICO Corp. study.]	The impact will be unique for each consumer – depending on the lender's action and the consumer's overall credit profile. In the context of "Amounts Owed," the FICO formula considers many aspects of the consumer's balances and behaviors, including whether a person has a high percentage of available credit at the time the report/score was pulled. Historical analysis shows that consumers with high debt loads and high utilization of credit pose greater credit risk. Opening a new credit card to increase available credit may backfire and reduce the score.

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What were the findings of the FICO Study, "How Credit Line Decreases Can Affect FICO® Scores" [April 2009 –October 2009 period] http://www.fico.com/en/Company/News/Pages/credit-line-and-fico-score.aspx	• 14% of consumers experienced reductions in revolving credit. Only 4% had a risk trigger event; 10% had no risk trigger. • Lenders targeted higher scoring populations: median score 757 with card account typically with low balance/low use, few missed payments, and long credit history. • After reduction in credit line, scores went up, down, or stayed the same. Most stayed within 20 points. Few experienced drops of 40 or more points. • For the no risk trigger group, 74% stayed in the same band, 12% moved up, only 8% moved down.
Will new Federal Reserve/FTC risk based pricing regulations help?	Under new regulations that take effect 1/1/2011, lenders must give consumers a risk-based pricing notice to let them know if they qualify for terms materially less favorable than the most favorable terms available to a substantial number of borrowers. Borrowers will be on notice and can challenge errors in their credit file or decide to improve their scores before proceeding.
Where can you get more details?	www.MyFICO.com. In particular, click on the "Education" tab in the row near the top. There you will find many Q&As, plus an 18 page booklet called "Understanding your FICO® Score.