

FICO Score - a Brief Explanation

When you apply for a mortgage loan, you expect your lender to pull a credit report and look at whether you've made your payments on time. What you may not expect is that they seem to be more interested in your "FICO" score.

"What's a FICO score?" is a common reaction.

Each time your credit report is pulled, it is run through a computer program with a built-in scorecard. Points are awarded or deducted based on certain items such as how long you have had credit cards, whether you make your payments on time, if your credit balances are near maximum, and assorted other variables. When the credit report prints in your lender's office, the total score is displayed. Your score can be anywhere between the high 300's and the low 800's.

Lenders wanted to determine if there was any relationship between these credit scores and whether borrowers made their payments on time, so they did a study. The study showed that borrowers with scores above 680 almost always made their payments on time. Borrowers with scores below 600 seemed fairly certain to develop problems.

As a result, credit scoring became a more important factor in approving mortgage loans. Credit scores also made it easier to develop artificial intelligence computer programs that could make a "yes" decision for loans that should obviously be approved. Nowadays, a computer and not a person may have actually approved your mortgage.

In short, lower credit scores require a more thorough review than higher scores. Often, mortgage lenders will not even consider a score below 600.

Some of the things that affect your FICO score are:

- Delinquencies
- Too many accounts opened within the last twelve months
- Short credit history
- Balances on revolving credit are near the maximum limits
- Public records, such as tax liens, judgments, or bankruptcies
- No recent credit card balances
- Too many recent credit inquiries
- Too few revolving accounts
- Too many revolving accounts

FICO actually stands for Fair Isaac and Company, which is the company used by the Experian (formerly TRW) credit bureau to calculate credit scores. Trans-Union and Equifax are two other credit bureaus who also provide credit scores.