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UNDERSTANDING FICO SCORES / BEACON SCORES

What is your FICO score? Lenders are increasingly posing this question to credit applicants.

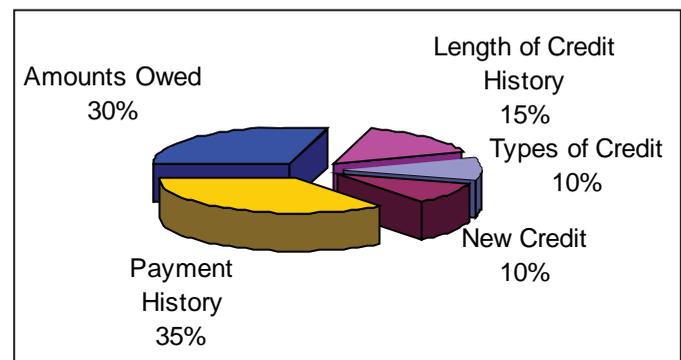
Named for its developer, Fair, Isaac & Co., and in use since the 1950s, the FICO score model has since achieved wide use throughout the lending industry. Regardless of whether the loan is intended to finance a car, buy a house, obtain insurance or provide your business with cash or a line of credit from your local bank; your score matters.

This score helps the lender assess the risk in making the loan and picture the borrowers past credit history. Fair, Isaac & Co. and the credit bureaus do not reveal precisely how these scores are computed, but a complicated formula takes certain information from your credit report and condenses it into a single number. The Federal Trade Commission has ruled this to be an acceptable practice. There are many factors that can affect the score, and I will elaborate on them in future columns. Over the next few months I will tell you how to improve your scores with simple methods and maintenance to your report information, as well as which items may most affect your score. Understanding the model and how the score is derived is a great help understanding FICO scores.

FICO SCORE MODEL Items evaluated by percentage

HOW A SCORE BREAKS DOWN

These percentages are based on the importance of the five categories for the general population. For particular groups — for example, relatively new users of credit — the importance of these categories may be somewhat different.



OTHER NAMES FOR FICO SCORES

FICO scores have different names at each of the three credit reporting agencies. All of these scores, however, are developed using the same methods by Fair, Isaac & Co. and have been rigorously tested to ensure they provide the most accurate picture of credit risk possible using credit report data.

An update to your address, for example, would have no effect on your score. On the other hand, substantially lowering the balance on a maxed out credit card might have a notable impact on your score.

CREDIT REPORTING AGENCY	FICO SCORE
Equifax	BEACON®
Experian	Experian/Fair, Isaac Risk Model
TransUnion	EMPIRICA®

FICO RE-SCORING

Once an error is fixed, when is the score updated?

Your very next score will reflect the updated information. Since FICO scores are recalculated every time they are requested (rather than stored as part of your profile), they respond to meaningful changes instantly. What's a meaningful change? An update to your address, for example, would have no effect on your score. On the other hand, substantially lowering the balance on a maxed out credit card might have a notable impact on your score.

FICO SCORE FACTORS

What's the most important factor in a Score?

FICO scores consider five main kinds of credit information. Most important to least are:

- Payment history.
- Amount owed.
- Length of credit history.
- New credit.
- Types of credit in use.

What are the highest and lowest FICO scores?

FICO scores range from 300 to 850. The higher the score, the lower the predicted credit risk for lenders.

The FICO score model is being used more and more in the lending industry, but I believe it is still no substitute for good, old-fashioned underwriting and getting to know your client. There are many great people – good credit risks - with low FICO scores. I recommend you do business with someone you can get to know personally and create lifelong financial relationships. I spend a lot of time teaching my clients the importance of FICO scoring and, as part of our relationship, assist them with improving their credit file and their credit score. I will explain how to increase your score with a few simple steps in the next issue.

Richard D. Bell, CMB is the president and chief executive officer of Harborside Mortgage Corporation and HMCFUNDS.COM. Richard has over 25 years experience as a business owner in Houston, Texas. Richard enjoys commercial lending and commercial development specializing in Medical and Hospital development. He is a recognized Member of Who's Who in Executives and Professionals 2005-2006, President of The Million \$ Producers Association 2003-06, member of The Presidents Circle for recognition as one of the top 50 Mortgage Bankers in the United States 2003-2006 and holds memberships with numerous associations such as TAMB, TMBA, CLACC, MDPA, BABR and C.A.R.T. Richard can be reached via email at richard@thetexaslender.com.