

LIBERTY FINANCIAL

A REAL ESTATE LENDING FIRM

What is a FICO score?

If you have ever applied for a credit card, car loan, or mortgage loan, you have probably heard the term 'FICO' score, but most people don't know what it is.

In the late 1950's Fair Isaac & Co. (FICO) came up with a scoring software program that would help creditors determine whether or not that particular person was creditworthy. This software program evaluates your credit and assigns it a number score. This virtually eliminates the need for another person to evaluate your credit report. In essence, a FICO score is like a report card of how you manage your credit. Your creditors, like credit cards companies, are the teachers that are grading your credit performance and reporting your performance to the credit bureaus. The higher the score the more likely you will get better rates and larger credit limits. There are three major credit reporting bureaus that collect your credit data and issue a FICO score: Trans Union, Experian and Equifax.

The FICO score range is from 300 to 850. Much like SAT scores are important when applying for college, FICO scores are important when shopping for a loan. A lower score, such as 500, may result in a much higher interest rate or even denial of credit. Sometimes it can even affect a job application. A 'good' credit score depends on the type of financing desired. For example, if you are putting no money down on a home purchase, you will be able to obtain favorable financing if your FICO score is 680 or better. When applying for a real estate loan, most lenders use the middle of the three FICO scores to determine your loan pricing.

There are a number of different ingredients that determine a FICO score. The most widely used are listed below:

- Timely Payments
- Bankruptcy, Tax Liens and Foreclosures
- Collections
- Amounts Owed
- Length of Credit History
- New Credit
- Type of Credit Used
- Recent Credit Inquiries

A combination of these factors establishes your FICO score. If you don't pay your bills on time and are at or above your credit limit, your credit score will be much lower than someone who owes very little and pays on time. It's really that simple.

What it really boils down to is being responsible with your debt. Pay on time, don't overspend and know your limits. Those are the best practices for achieving and maintaining a good credit profile and FICO score.

It is important to know what is on your credit report. To obtain a free copy of your credit report, visit www.annualcreditreport.com. You can get a free report from all three bureaus once a year.

Can I improve my FICO score?

If you have had some financial woes in the past, your FICO score may be suffering as a result. Having a good FICO score can save you thousands of dollars in interest on credit cards, car loans and mortgages. There are very simple steps you can take to improve your FICO score.

- ***Pay your payments on time every month.*** Late payments are one of the most common culprits negatively affecting FICO scores. So if you want to make your score higher, don't take chances. Pay your bills before they are due.
- ***Pay credit cards down to below 50% of the credit limit.*** If your credit limit is \$1,000 you should not owe more than \$500 on the account. One of the faster ways to achieve this is to focus on paying down one card at a time. Pay only the minimum payment on the rest of your cards and put the rest of the money toward the card you want to pay down. Then repeat this process with each credit card.
- ***Don't apply for any new credit.*** Having a lot of new credit can hurt your score. FICO scores are higher when the credit accounts are older and established. New accounts with maxed out limits have a negative impact on your FICO score. If you have no established credit or just completed a bankruptcy, then certainly apply for new credit so you can begin to build a credit profile. Just don't go overboard and don't borrow money you cannot afford to pay back.
- ***Pay off any collection accounts.*** Once the collection is paid, your credit score will begin to improve as that paid collection gets older and older.
- ***Try to clean up any false, negative information still being reported on your credit report.*** Often if a person has gone through a bankruptcy, the creditors have not updated their information and still report that the account is delinquent. A simple letter to the credit bureaus with proof the account was discharged through bankruptcy will help improve your credit rating. This is also true with other accounts that are being incorrectly reported as derogatory. Do not be thwarted in your efforts to have your credit information corrected. It takes tenacity and focus just like dieting.

- ***Pay special attention to your credit to be sure all information is being reported correctly.*** Check your credit report annually and more often if you are working to improve it. You can get a free credit report every year at www.annualcreditreport.com. You can also obtain your credit reports for a fee from the three bureaus, Trans Union, Experian and Equifax.

Raising a low FICO score will take time and effort, but it can be done. Negative items can immediately and significantly affect your FICO score so you have to pay close attention. It may take 6 months to 2 years of paying your bills on time to reverse the damage. You will need to demonstrate that you can handle your debt responsibly. Once you have achieved that, you can begin to reap the benefits of having a good FICO score.

What is “Rapid Rescore”?

Rapid Rescore is an expedited process offered by Liberty Financial to improve your credit score. When negative information is being incorrectly reported on a client’s credit report, it can grossly affect the credit score. Often times getting this information corrected can take months, meanwhile the client is missing out on a good loan or interest rate.

With Rapid Rescore, Liberty Financial can get most items removed within days. The client simply gets a letter from the creditor stating that the information is being reported incorrectly and Liberty Financial orders the Rapid Rescore through the credit reporting company. Generally within 72 hours the information will be corrected. Once the change is reflected on the new credit report, the score will generally improve significantly. Rapid Rescore can make the difference between loan approval and no approval.