# How to Read FICO Reports

FICO stands for Fair, Isaac and Company, a California firm founded in 1956 by Bill Fair and Earl Isaac. They created a unique credit scoring system based on the FICO rating system. This rating system include several parameters from your credit file including length of credit history, number of open accounts, loans, mortgages, and public records that is formulated to produce a 3-digit score between 300 and 950.

If your credit score is above 680, you are considered a “prime” or a low risk in terms of someone who wants to rent or lease to you. If your score is below 680, you are “sub-prime” and fall in the middle category in terms of risk of renting/leasing. Anything below a 560 is considered a “shafted’ score and this person is not someone who is a good credit risk.

A prime score means you are a good risk. A sub-prime score doesn’t mean you shouldn’t get a rental/lease, but you may be required to go a step further in terms of possibly providing a security deposit or first and last month rent payment before move in. Shafted scores are not good risks as tenants, but again doesn’t mean you shouldn’t get a rental or lease. Further provisions may be required from the landlord.

How a FICO Score is Calculated

1. Previous Credit Performance (Payment History) 35%
   Payment History on accounts includes credit cards, retail accounts (department store credit cards), installment loans, finance company accounts and mortgage loans.

Collection Items and public records include judgments, bankruptcies, suits, liens, collection items and wage attachments including specific details on late and missed payments.

Negative information/late pays are determined using three factors:
*Recency* – How long ago was the last delinquency. How old is the late pay? A 30-day late payment made just a month ago will affect your score much more than a 90-day late payment from five years ago.
*Severity* – What level of delinquency was reached? How late was the payment made? 30 days, 60 days, 90 days or worse. Is the payment still outstanding?

*Prevalence* – How many credit obligations have been delinquent? The amount of negative items as compared to your total amount of available credit.

For instance, five accounts showing three late payments is much worse than ten accounts showing four late payments. One of the biggest sub-factors is how many accounts show no late payments. A good track record on most of your credit accounts will increase an over-all FICO score substantially.

2. Current Level of Indebtedness (Amount Owed) 30%
   How much is too much? Can the borrower pay you and still afford to pay his other bills? Having available credit actually helps your ratio of debt to available credit. These are the types of questions that most borrowers want to know and the answers are almost as important as your previous credit history.

   Total amount owed on all open accounts. Paying off your credit cards in full every month does not mean that they won't show a balance on your report. Your total balance on your last statement is generally the amount that shows in your credit report.

   Specific types of accounts, such as credit cards and installment loans are scored differently and in conjunction with the overall amount owed on all open accounts. This also factors into your balance on each specific type of account. For instance; you have a credit card with a very small balance and no late pays. Even though the balance is low, this still looks very good as it shows that you are able to manage your credit responsibly. How many accounts are open and how many have balances? A large number of open accounts, even with small balances, can indicate higher risk of over-extension.

3. Amount of Time Credit Has Been In Use (Length of Credit) 15%
   Most often, the longer the credit history, the better your score. However, this factor only makes up 15% of your total score so even young people, students, or others with short histories can stills core high overall as long a s the other factors show good. IF you are new to credit than there is little you can do to improve this part of your score. Open an account and be patient. The age of your oldest account and the average age of all your accounts are taken into consideration. How long it has been since you used certain accounts as well as the mix of older and new trade lines.

4. Pursuit of New Credit (10%)
   Credit is much more popular today. Consumers can now shop for credit and find the best terms for their situation. Every time someone runs a credit check on you, it creates an inquiry. Are you searching for new credit accounts or just rate shopping?

   FICO handles this by treating a grouping of inquiries – which probably represents a search for the best rate on a single loan – as though it was a single inquiry (note: this only applies to auto or mortgage loan inquiries).

   Inquiries are typically seen as a request for credit and thus are factored as if you are searching for credit. Every time you fill out one of those credit card applications to get a free hat, you are also getting a free inquiry. Every time you fill out an online application for a credit card, or other type of loan, you are getting an inquiry. Too many inquiries look bad. While there are no good inquiries, there are neutral inquiries. These are most often known as Consumer Initiated. A request for your credit reports shows as a consumer inquiry. Inquiries created as a result of

periodic reviews are not supposed to be factored into your credit score.

5. Types of Credit Experience (10%)
   A healthy mix of different types of credit, installment loans, retail accounts, credit cards, and mortgage. This score is not normally a key factor in determining your score but it can help a close score. It's not a good idea to try and open different types of accounts just to try and make this factor better. It will likely reduce your score in other areas. You should never open accounts you don't intend to use anyway. Your score takes into account what type and how many accounts you have, the optimal ratio of installment versus revolving accounts depends on your profile, and differs from person to person. One factor that seems to have significant influence is your percent of open installment loans. Too many can lower this portion of your score.