

# FICO Assignment

- **Question 1:**
  - **What is a consumer credit report?** A consumer credit report is a set of credit files (details of **credit history**) about individual consumer's borrowing activities.
  - Lenders making credit decisions buy credit reports on their prospects, applicants and customers from the **credit reporting agencies** (**credit bureaus**).

## Question 1

- **Information contained in a credit report:**
  - Personal profile; identifying information
  - Types of credit you use
  - Length of time your accounts have been open
  - Whether you have paid your bills on time
  - How much credit you have used
  - Public records/collection items
  - Whether you are seeking new sources of credit (**credit inquiry**).

## A Sample Credit Report

- Yahoo! Finance provides a sample report.
- You can see what exactly are included in a typical consumer credit report.
- The website address is:
  - <https://qspace.iplace.com/cobrand/26/product4.asp?sc=1327BKML>

## Question 2

- A credit score is a snapshot of your credit risk at a particular point in time.
  - The most widely used credit scores are **FICO** scores developed by Fair Isaac.
- The current average FICO score of all consumer borrowers is around **723**.
  - FICO scores range from about **300** to **850**.

## Question 2

- **Payment history** (approx. 35% of your score is based on this category alone!)
  - What is your track record?
- **Amounts Owed** (about 30%)
- **Length of Credit History (15%)**
- **New Credit (10%)**
- **Types of Credit in Use** (10%)

## Tips for Someone with Bad Credit

- Pay your bills on time
  - Paying off a collection account, or closing an account on which you previously missed a payment, will/will not remove it from your credit report.
- Keep balances low
- Don't close unused credit cards as a short-term strategy to raise your score.
- If you have been managing credit for a short time, don't open a lot of new accounts too rapidly.

## Question 2

- Re-establish your credit history if you have had credit problems.
- It's OK to request and check your own credit report and your own FICO score.
- Have credit cards, but manage them responsibly.
- Make sure that there are no errors on your credit report.

## Question 3

- A credit bureau or a **credit reporting agency collects** and **maintains** credit file on millions of consumer borrowers.
- The three major credit:
  1. Equifax
  2. Experian (formerly TRW)
  3. TransUnion
- A consumer credit report costs around \$10.

## Question 3

- What to do if you find an error in your credit report?
  - Contact the credit reporting agencies
    - The credit bureau contacted is required to investigate and respond to you within 30 days.
  - Contact your lenders

## Question 4

- Risk classification (pp. 30 – 31):
  - Separation and class homogeneity
- Reliability
- Incentive value
- Social acceptability
  - Controversy
  - Lenders cannot make credit decisions solely based on credit report information.

## Question 5

- Almost all financial institutions use consumer credit reports in their business operations.
- Why? Information contained in a credit report allows a lender to mitigate adverse selection problems.
- Risk classification.

## Additional Issues

- Check your credit report 6-12 months before applying to a big loan (why?)
- How credit scores affect you as a consumer:
  - With a 30-year fixed mortgage of \$150,000, you could save approx. \$365 on each monthly payment – by first improving your FICO score from a 550 to a 720.
  - <http://www.myfico.com/myfico/CreditCentral/LoanRates.asp#Calculator>