

WHAT IS YOUR FICO SCORE AND WHY IS IT IMPORTANT?

Just because you want to buy a home doesn't mean that a lender is eager to loan you money. Lenders look at your past history in handling your finances, which is where the FICO score comes in. By the end of this article, you will be able to identify a good FICO score and how it was determined.

The FICO score boils your credit history down to a three-digit number that instantly tells a lender whether you are creditworthy. This score dictates what terms—if any—you will be offered in a mortgage. Pioneered by the Fair, Isaac Corporation, this score and similar ones used by other credit reporting services rely on the following factors:

- How much you owe compared to how much you originally borrowed
- Your payment history
- How long you've had credit
- What types of credit you have
- New credit applications

Past payment history and outstanding debt are the two biggest factors in computing a FICO score. If you've consistently made loan payments after the due date and are using a large percentage of the credit available to you, that's bad. However, if you missed a car loan payment once three years ago, don't fret. Smaller blemishes, especially if they aren't recent, aren't enough to derail your FICO score. The score favors borrowers who have a mix of different types of credit, including installment loans such as car and student loans, as well as credit cards. The longer you've had credit, the better. If there is a record of a number of different applications for loans or credit cards in the recent past, that will count against you.

The average FICO score falls between 600 and 800, with the median at 723. The overall range is 300 to 850. Your FICO score makes a huge difference in terms of what interest rate you are offered on a mortgage. For example, a consumer with a FICO score more than 720 could get an interest rate nearly 2 percentage points below a consumer with a score below 620. That 2 percentage-point difference translates into a much more painful payment—on a \$200,000 loan, it would be about \$300 a month. One way not to get gob-smacked by a poor FICO score when you're in the mortgage lender's office is to pay a small fee to get yours in advance. Through Fair, Isaac (www.myfico.com) you can obtain a copy of your FICO score plus credit reports from the three major credit reporting bureaus for a small fee.