

A glimpse into the secret world of FICO

How much? This is one of the biggest questions we get as a credit reporting agency. How much does a late payment affect a score? What about a maxed out credit card? We all know a bankruptcy is a big hit to your score, but how much of a hit? Until now, we've only been able to guess at how much certain actions will affect your credit score. Recently FICO has released some "damage points data". While this data doesn't answer all the questions and there is still a lot of mystery surrounding the FICO models, this information gives us at least a small look into the world of scoring models.

Why are they releasing this information now? According to FICO spokesman Craig Watts, "I hope this information will help people to better understand FICO scores and the value for them of avoiding credit missteps. It illustrates key points such as the higher your score, the farther it can fall if you stumble."

How much any action good or bad can affect your credit score really depends on your credit report as a whole. And your credit score can change daily depending on when your creditors report to the bureaus (Equifax, Experian, Trans Union). A lot of consumers are under the assumption that credit scores only change once a month but the truth is that since different creditors report at different times of the month your scores can change with any new reporting.

According to Fair Isaac here is how some common credit mistakes could affect your credit score:

- **Maxed out credit card** – if your credit score is 680 this could drop your score 10-30 points. If your credit score is 780 it could drop your score 25-45 points. (this is per credit card and a maxed out card is any card where the balance is at 80% of it's credit limit)
- **30-day late payment** – at 680 it could drop your score 60-80 points. At 780 it could drop 90-110 points.
- **Debt settlement** – at 680 your score could drop 45-65 points. At 780 it could drop 105-125 points.
- **Foreclosure** – at 680 it could drop 85-105 points. At 780 it could drop 140-160 points.
- **Bankruptcy** – at 680 it could drop 130-150 points. At 780 it could drop 220-240 points.



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Again, how much your scores will be affected by any action depends on the overall content of your credit report. So these numbers are not necessarily set in stone, but they give us a better idea of what might happen if these actions occur. A person with several current late payments will take less of a hit by acquiring another late payment than a person with no late payments to begin with. Just as a person with several maxed out credit cards will take less of a hit for having one more maxed out card than a person who suddenly has one maxed out card show up on their report.

Maintaining a good credit score (720+) is not really difficult as long as certain guidelines are followed:

- Keep your revolving balances below 30% of the high credit
- Pay your bills on time (or early)
- Avoid opening new credit (unless you have to)
- Don't close old accounts (keep them open and use them occasionally)

Credit scoring models are still shrouded in a lot of mystery but at least this is a start into answering some of the more common consumer questions. The more questions we ask the more FICO may continue to open up.

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