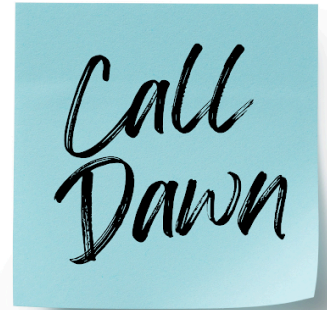




Shedding some light on the FICO score

FICO is to credit score what Kleenex is to tissue or Xerox is to photocopy. Founded in 1956 by engineer Bill Fair and mathematician Earl Isaac, Fair, Isaac and Company pioneered the concept of credit scoring. This innovative blend of engineering and mathematics led to the development of a system that revolutionized how creditworthiness is assessed.



While Fair, Isaac, and Company laid the groundwork, many other companies have joined the credit scoring landscape. Today, there are three major credit bureaus, each using its proprietary credit score formula: Equifax uses "Beacon," TransUnion employs "Classic," and Experian relies on the familiar "FICO" score.

It's important to understand that a credit score doesn't exist until it's requested; there's no central database of scores. Instead, a snapshot of your credit profile at the time of the request is processed through an algorithm, resulting in your credit score.

Different Bureaus, Different Scores

A little-known fact is that multiple credit score formulas exist. Consumer-direct scores are typically higher—often by 20-30 points—than mortgage scores. If you paid for a credit score before applying for a mortgage, you might find this frustrating. When processing a mortgage application, lenders pull credit reports and scores from all three bureaus. They disregard the highest and lowest scores, relying solely on the middle score for underwriting. If multiple applicants are involved, the lowest of all middle scores is used.

Why Credit Scores Matter

Your credit score plays a critical role in your loan application process. It may determine your eligibility for specific loan programs, as well as influence the overall cost of your loan and mortgage insurance. If you have little to no credit history, you may not have a credit score at all, but you could still qualify for some loan programs. In such cases, we often build credit history using nontraditional sources like rent payments, utilities, and other bills. However, loans without a score will undergo manual underwriting, typically resulting in higher costs.

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How to Improve Your Score

We provide clients with copies of their credit reports and all relevant credit scores, ensuring they understand how these scores impact loan eligibility and costs. Whenever possible, we offer specific guidance on improving credit scores. While the algorithms used to calculate credit scores are closely guarded secrets, our extensive experience with credit reports allows us to identify effective strategies. We have successfully helped many clients enhance their scores, ultimately saving them money in the process.



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