

## Mortgage Financing and your FICO Credit Score

When you apply for a loan, the lender will rate your credit based in part on your FICO Credit Score. Named for credit scoring industry leader Fair, Isaac and Co., the FICO score is derived in part from a borrower's past credit history. The company's software and services take that history and measure it against a database of habits in the general borrowing population. That, in turn, determines whether the borrower's tendencies match those of borrowers who default on debt, declare bankruptcy or end up in other types of financial trouble. The higher the FICO score the lower the risk the borrower will default on the loan.

The FICO score is based on five characteristics in descending order:

- Past delinquency. People who have failed to make payments in the past tend to do the same in the future.
- The way credit has been used. A borrower close to the limit on a credit card is considered a greater risk than someone who doesn't use a credit card for loans.
- The age of the credit file. Fair, Isaac's model assumes people who have had credit for a long time are less risky.
- The number of times a person asks for loans or applies for credit cards.
- A borrower's mix of credit and loans. A borrower with a mixture of loans and credit cards is generally less risky. On installment loans, a person borrows money once and makes fixed payments until the balance is gone, while revolving

borrowers make regular payments, each of which frees up more money to access.

The Fair, Isaac system looks for patterns, and takes into account when a problem occurred and whether it is part of an ongoing problem.

Once all the data are gathered, the system spits out a number roughly between 300 and 800. Anything higher than 660, everything is fine. A score between 620 and 660 isn't bad either; it may just take more work to convince the lender that the risk is worth it. Below 620, however there's still a shot at obtaining a loan, but it's a long one.

Freddie Mac, a quasi-governmental agency that sets loan standards most mortgage lenders follow, says exceptions might be made if the credit report has incorrect or incomplete information in it, or if it doesn't contain enough data. An unusual event such as a job loss or extended sickness may excuse borrowers as well, according to the agency.

For a free FICO Score Estimator go to: [www.bankrate.com/brm/fico/calc.asp](http://www.bankrate.com/brm/fico/calc.asp) accurately complete the questions and get your FICO Score.

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