

Credit Point Scores & How They Work

Did you know that you can receive a credit point score of ZERO? Yes, it's true. The new algorithm by Fair Isaac (NexGen) implemented within the credit reporting industry is causing consumers to receive a credit score of ZERO.

We have long felt that the current credit point scoring system is tremendously flawed - and now we know it is.

We recently attended a conference on point scoring and were floored to learn these facts.

What Determines Your Score?

35% of your score is determined by WHERE you live. Now red lining was outlawed over 30 years ago. For those new to the credit industry, red lining occurred when lenders drew a "line" on a map and said that anyone who lives on this side will pay higher interest. TODAY they put these "red lines" in a "proprietary" software application and presto chango - it's suddenly OK?

Your income is determined by WHERE you work...NOT by how much you actually make or what your position is within the company. Yes, if you list that you work for a company like McDonalds, they know the average pay for that "type of business" and instantly you're a minimum wage worker. It doesn't matter that you maybe the CEO of the operation. I wonder where they class WalMart employees?

If you're planning on purchasing a house and want to get all your bills paid off so that you look good....think again. WRONG! No recent activity (recent is within the last 6 months) will cause you to have a point score of ZERO.

Forget financial acumen, forget conservative spending, forget paying off your bills, forget everything you know to be right. These people want us in debt -- and the more the better. They are just laying in wait for you to slip one payment with ANYONE and bang ... higher interest ... higher insurance ... lower grace periods and who knows what else.

Don't have a car loan? BUZZZZZ ... lower credit point score.

Aren't paying on a home mortgage? ZAPPP lower credit point score. Doesn't matter if you own 10 homes free and clear... no mortgage = lower score. One person, who had always rented recently built a new home, saw his point score jump by almost 200 points with his mortgage. But watch out, if you have two mortgages, you can expect your point score to drop 150 points.

Only have ONE charge card? ... HONKKK ... lower credit point score. You may have a credit limit of \$50,000, but that's simply not enough. What's worse is that the larger creditors don't report your credit limit any longer. However, a plus is having one credit card that has been opened for over seven years.

Didn't open up any credit prior to the age of 24? ... PING ... lower credit point score.

Used an internet services for automobile financing?ZING... watch all those inquiries within a short period of time tank your credit score.

Did you recently close some of those old inactive credit card accounts?...PLONK...down your score went.

These people (Fair Isaac & businesses that use them) have got everyone running around trying to figure out what to do. But you really CAN'T figure it out. Every day, the rules change and not for the better.

To make this even crazier - when you go for a mortgage the lender get's three scores. Guess which one that they use? They use the number that is in the middle. Now doesn't that make sense.

Things NOT to do...

DO NOT close old credit cards, even if you are not using them.

DO NOT request that agricultural loans be reported on your credit file. These are usually very high balance operating loans and are only paid twice a year.

DO NOT provide your personal information when shopping for rates, or cars, or insurance, these businesses will pull your credit report. Each hard inquiry for credit decreases your point score. First find the best deal, or the best rate, and then provide your information.

DO NOT respond for a credit card because you got a great offer through the mail. 95% of the businesses that solicit you through the mail are predators, who's only interest is to make you a credit slave.

DO NOT use those checks that the credit card company sends you, the interest rate is staggering.

So what is a person to do?

There has been alot of write up about opening 3 accounts. Monitoring your credit report. Reviewing your credit report before making a big purchase. And more and more stuff. Usually this is propogated to the news industry by the very people who developed point scores.

The other day I was visiting with an individual about the insanity of the credit industry. I inquired if she had ever seen her credit report. What she said hit right on the mark. She told me she never worries about it - she only deals with one bank. She does all her business there and they know her. While I didn't care for the particular bank she used, her point is correct.

From a young age, you should first start dealing with a bank or a credit union by opening up a savings account. (I use to prefer credit unions, but regretfully their policies are mirroring those of banks & some are actually even more ridiculous than the banks.) I do recommend that you use a locally owned and operated bank, the national banks can be rather unforgiving when problems occur; and they play by "out of state" rules, where your local bank must play by state rules.

Need a charge card later?...get it from this same institution.

Need a auto loan...guess where to go? Yep, back to your banker. Some financial institutions can even help you with insurance.

Need a loan for car repairs?...your banker.

Need a mortgage?... your best bet will be the people who have known you all your life. This is one of the limitations of credit unions. Credit unions normally do not do new construction loans and they are limited in the number of home loans they can do.

Shop around for good rates. But use that information to negotiate with your banker. If someone gives you a good rate, tell your banker, many times they will match it.

We also recommend that you personally visit your bank. Get out of the car and walk in. Develop a relationship with the people there. Get to know them, so that they can get to know you. You'd be amazed at the number of bankers who ignore point score simply because they KNOW the person; especially when one of their best customer's have a zero point score.

Moving? Ask your banker who they would recommend in the new area. Then use that recommendation when you move. Go in and drop names, tell them where you came from and what you need from a bank. Whether you have a little money or alot, this is the very best way to make certain that you don't go chasing your tail.

Don't have a personal banker?

Don't have a current relationship with a bank or credit union? It's never too late to start. Take a Saturday morning and go around to the banks that are in your neighborhood.

Interview the new accounts person, if possible visit with the president of the institution. Ask them what they can help you with -- short term loans, car loans, mortgages, insurance, etc. Use your gut to determine if you like what you hear. Ask them what is required to open up a savings account or a checking account. You'd be amazed at the differences from institution to institution. Some make it easy & some make it very, very hard.

Shopping for a financial partner is like shopping for a car. It pays to shop around.

The Give & Take Factor

With all suggestions, there is a balance. The balancing factor here, is that you banker may not be willing to give you the money that you want.

Most personal bankers are concerned about getting their customer's into so much debt that they can't pay. So if you should get turned down - consider these factors.

Are you living beyond your means?

Are you living paycheck to paycheck?

Is this just something you want?

Can you live without it?

If you answered yes to these questions, then just maybe it isn't something you NEED.

However, if it is something your REALLY need, then ask your banker what you need to do to get the loan. Most have some idea of what you can do. Openly and frankly discuss your situation.

****April 2005 Update****

We are just now seeing the affect of Fair Isaac's NexGen algorithm. For the first time, we saw a point score of -99. That is correct, a negative number. One has wonders, how that can occur? Just goes to show how utterly worthless this scoring system is.

****November 2010 Update****

We learned from National Credit Reporting Association, that the point scores are going to be penalizing individuals with home equity loans. So if you have both a mortgage and a home equity loan, you may want to reconsider getting a new mortgage and wrapping them both into one. As for those that have a paid off mortgage, well, time will tell how that will work.

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Retired Military

Written by Guest on 2005-03-29 The best info that I have gotten on all of this credit issue. Thanks

Ref: Closing Unused Credit Cards

Written by CreditWatcher on 2005-04-24 ...Bankrate.com is still recommending us to close our unused accounts, but to be sure it gets reported as "closed by customer".

We're caught between what the "Bankrate.com Experts" and most credit books / guides are saying and what we read here...What an ACCESS Staff Writer says was discussed at a 'point scoring conference' (Where? When? Can't say for anonymity reasons?)

And what's with this new algorithm? It is not discussed at all.

So it boils down to whom you believe and ultimately taking a chance.

This anonymous ACCESS Staff Writer could have presented a lot more facts to help us decide whom to believe.

Can anyone out there clarify this or offer further insight?

Re: Ref: Closing Unused Credit Cards

Written by jmalmborg on 2005-05-03 Bankrate is not in the credit reporting industry - they don't assist consumers in correcting credit reporting problems. They monitor the credit card industry.

These articles are written by several staff members within ACCESS -- not just one. Our board members have over 100 years of experience within the credit reporting industry.

The article was based on numerous facts - 1) Fair Isaac presentations at ACB, CDIA, and NCRA conferences, 2) numerous articles where Fair Isaac is quoted, and 3) based on our relationship with numerous companies within the credit reporting business who still pride themselves on helping consumers (which isn't Experian, Equifax, or TransUnion.) and 4) conversations with thousands of consumers and studying why something went wrong.

Four years ago, we too recommended closing accounts that were no longer being used, but now we KNOW different. We recognize that when anyone talks about point scoring, it is like trying to hit a moving target. The rules change constantly.

Re:Closing Unused Credit Card

Written by cat101 on 2005-04-26 One of the problems with closing old credit cards, is that the card information is no longer updated. The verification date begins getting old & counts less towards your credit score.

Good old accounts keep your score high.

The second problem is that some computers have a problem with distinguishing between "closed by consumer" and "closed by credit grantor." They just see CLOSED.

help mwith credit reports

Written by Jeromewatsonjr on 2005-12-12 how do i find out my credit score

Re: help mwith credit reports

Written by jmalmborg on 2005-12-12 Unfortunately, you can't get your credit scores for free. You have to purchase them.

The easiest way to go about this is to go to <http://www.myfico.com>. Each of the three credit repositories has a separate score for you. MyFICO will allow you to purchase all of your scores.

Hope this helps.

re: Help with credit reports

Written by cat101 on 2005-12-12 There are over 1,000 different credit scores. Check our site for "point scores." You can purchase a FICO score, but why. It's not used by any business. Please read our articles on this.

better credit score

Written by Guest on 2006-02-11 how can i start to get credit

RE: Better Credit Score

Written by cat101 on 2006-02-13 What a great question..The best way to establish credit is to start small. We usually recommend that you get a gas card. These cards carry low limits and usually require PIF every month. To our knowledge all of them report to the CRA's. It's hard to get into trouble with them. Plus, they give you a discount on your gas purchase -- ++ in our opinion.

The next thing might be to purchase a car. Get financing AT YOUR BANK and not from the auto lot. It is critical to begin a relationship with your bank. They will work with you to establish what you can afford. Go to the bank first, BEFORE, looking for a car.

Does it really help?

Written by Guest on 2006-05-31 Someone(s) from her previous lives made my wife think it's bad to pull your credit report/score every year. She thinks we shouldn't do anything(about credit score) like disputing, until we've saved, or come into some money and then go to the bank to try to buy a home.

Does it really help?

Written by jmalmborg on 2006-05-31 Looking at your credit report is a very good idea and we advise everyone to do this at least once every year. It will not hurt you one bit. On the other hand, if you don't pull it, you will never know if someone else is using your identity.

I think what your wife is probably referring to is when several creditors check your credit at the same time. For instance, if you are shopping loans for a new car or a home.

When this happens, it can impact your credit score. The reason is that lenders assume that the first company that pulled your credit report actually granted you credit. This type of reduction in your credit score is usually short-lived but because this can occur, you should do your homework on loans prior to putting in an application. When you call and ask for a loan rate, don't give out your Social Security Number. If you can, you should shop loan rates online. You can do this at websites like BankRate.com. If you belong to a credit union, check with them directly.

As for your credit score (as opposed to your credit report) you should know that the score that the CRA's will give you is different from the one that they give to lenders. It may not be a bad idea if you have absolutely no idea how good your credit is, but don't expect a bank to give you a loan based on what the CRA's supply you.

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