NAR Advocacy Group Update

FICO Score Frequently Asked Questions

February 2, 2021

Many REALTORS® have questions about FICO scores and the impact of various adverse credit events on the score. A FICO score is a credit score computed using proprietary formulas of the FICO Corporation (formerly called Fair Isaac), but there is not just one FICO score, for reasons described below. FICO is not the only credit score available, but it is the only credit score currently accepted by Fannie Mae and Freddie Mac for underwriting. VantageScore is growing in acceptance outside the mortgage industry and may gain acceptance in the future as the GSEs are reviewing the scores they used. More education about VantageScore can be found at vantangescore.com/consumer/education.

The following FAQs, for the most part, are based on information posted by the FICO Corporation, including "Understanding Your FICO® Score" and Q&As found on the "Education" tab at *my*FICO. NAR has also prepared a chart showing the impact of various adverse credit events on the ability of consumers to purchase another home with a FHA, Fannie Mae, or Freddie Mac mortgage.

<table>
<tr><td>How is a FICO score computed?</td><td>The formula is proprietary information, but FICO has made public the relative importance of 5 categories of information that form the basis of computing the score:
• Payment History—35% Amounts owed—30%
• Length of Credit History—15%
• New Credit—10%
• Types of Credit in Use ("healthy" mix?)—10%
A FICO score predicts the likelihood of becoming at least 90 days delinquent on any credit obligation within the next 2 years.

myFICO: What's in my FICO® Scores?</td></tr>
<tr><td>Why are there multiple versions of FICO and how many are there?</td><td>By far the most common score in mortgage lending is FICO 4 as it is used by Fannie Mae and Freddie Mac. However, FICO has newer versions including FICO 8, 9 and 10 as well as FICO NextGen and FICO XD. Each version incorporates newer data and some expand the data being used to include non-traditional credit such as utility, telecom and rental payments. Other scores reduce the impact of medical debt or debt that has been repaid in full.

myFICO: Understanding FICO Scoring: The-many-flavors-of-FICO Editions Versions and Variations</td></tr>
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Why are there 3 different FICO scores for each version?	FICO adjusts its FICO score formula for each of the 3 national credit reporting agencies—Experian, Equifax, and TransUnion—to take advantage of their unique data strengths. In addition, not all credit information is reported to all 3 credit bureaus, and there can be errors in a person's credit record, such as information on accounts of other people due to similar names, social security numbers, or addresses. Note, lenders will use the FICO score, but many will augment their credit decision with additional criteria (application data elements for example) they want to consider.
Why does a credit check reduce a FICO score (even if the credit check does not result in new credit)?	FICO's research shows that more credit shopping, resulting in more inquiries, correlates with a higher risk of future default. Consumers for whom there has been no credit check are generally less risky. Not all inquiries will affect the score. When they do, an inquiry has a relatively small impact on a FICO score, typically less than 5 points. The formula only considers inquiries over the last 12 months. Please visit myfico.com for more details. Consumers with more inquiries are more likely to have a future default.
How does credit shopping affect one's credit score?	The FICO score ignores any mortgage, student loan, or auto loan inquiries made within the previous 30 days. The score also looks for inquiries made in the 11 months before that, and reduces all such inquires within any 45-day window to a single inquiry. **FICO/blog:** Credit Checks: What are credit inquiries and how do they affect your FICO® Score?

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How long will negative information remain on your credit report?	• Late payments: 7 years [borrowers who use a shortsale and "deed in lieu" often have already had their lender report late payments]. • Bankruptcies: 7 years (10 years for full discharge of debt). Foreclosures: 7 years. Generally speaking, the impact of adverse information on a FICO score lessens over time. **FICO/blog:** Research Looks at How Mortgage Delinquencies Affect Scores
How long will a foreclosure affect your FICO score?	Foreclosures stay on a credit report for 7 years, but the impact lessens over time. If other credit obligations are being met, the FICO score will begin to improve gradually over time. Generally speaking, if a foreclosure is the only negative on the credit report, it will have less impact to a score than will a Foreclosure and other negative items posted in the file. A foreclosure could lower the score 100+ points. **FICO/blog:** Research Looks at How Mortgage Delinquencies Affect Scores
How does a short sale or "deed- in-lieu" affect your FICO score?	Generally speaking, short sale, deed-in-lieu and foreclosure will all have a similar impact to the borrower's FICO score. How much the score changes will depend on how the short sale or DIL is reported and on the other information in the credit report. If reported in a way that indicates "not paid as agreed," the FICO score could go down 100+ points. Late payments stay on a credit report for 7 years, but the impact lessens over time. **FICO/blog:** Research Looks at How Mortgage Delinquencies Affect Scores

How does a bankruptcy affect your FICO score?	Bankruptcies stay on your credit report for 7 years (10 years if there is a full discharge of debt). Because they often involve more than one account, bankruptcies generally have a greater negative impact on the FICO score compared to a foreclosure, short sale or "deed-in-lieu" **FICO/blog:** Research Looks at How Mortgage Delinquencies Affect Scores
How does a loan modification affect your FICO score?	It depends on whether the lender reports it and, if so, how. Note, the U.S. consumer credit reporting system is voluntary. Starting in February 2009, some lenders began to report consumers participating in a loan mod program (using existing code AC to signal partial-payment—not paid as originally agreed). This could significantly lower the FICO score. In November 2009 the credit reporting agencies introduced a new code (CN) to mean "loan modified under a Federal government plan,". The FICO scoring formula currently ignores the CN code, but this could change if FICO researchers find that appearance of the new code is predictive of future credit risk. Generally, data shows that borrowers not paying as originally agreed are more likely to become seriously delinquent in the near future. If the loan modification is reported as the same loan with changes, the score impact should be minimal. If the loan modification is reported as a brand-new loan, the score could be affected more by the inquiry, balance, and a new "open date." In either case, if the lender also reports that the borrower has not made payments as originally agreed, the FICO score could go down. The Consumer Data Industry Association (CDIA) provides reporting options available to furnishers for borrowers impacted by a disaster such as the pandemic. A reporting option cited by the CDIA is to report special comment code AW ("affected by natural or declared disaster"), which has not impact on FICO score. **FICO:** Credit Reporting in the U.S. During the COVID-19 Pandemic

If a credit card issuer reduced your credit limit, or if a mortgage lender reduces your Home Equity Line of Credit (HELOC), how does that affect your FICO score?	The impact will be unique for each consumer – depending on the lender's action and the consumer's overall credit profile. In the context of "Amounts Owed," the FICO formula considers many aspects of the consumer's balances and behaviors, including whether a person has a high percentage of available credit at the time the report/score was pulled. Historical analysis shows that consumers with high debt loads and high utilization of credit pose greater credit risk. Opening a new credit card to increase available credit may backfire and reduce the score. ***my*FICO**: How Credit Limit Decreases Can Affect Your Score
Will new Federal Reserve/FTC risk-based pricing regulations help?	Under new regulations that take effect 1/1/2011, lenders must give consumers a risk-based pricing notice to let them know if they qualify for terms materially less favorable than the most favorable terms available to a substantial number of borrowers. Borrowers will be on notice and can challenge errors in their credit file or decide to improve their scores before proceeding.
Where can you get more details?	***my*FICO**: In particular, click on the "Education" tab in the row near the top. There you will find many Q&As and in-depth discussion of the factors that affect your score.