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New FICO scoring more lenient on small, missed payments

By Amy Hoak

MARKETWATCH

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Even the most responsible borrowers slip up sometimes.

Maybe a utility bill went unpaid after you moved and the missed payment went into collections. Or perhaps there are unpaid library fines or parking tickets in collections that are hanging onto your credit history and affecting your FICO credit score, which is widely used by lenders to evaluate your ability to repay a debt.

With the newest version of the FICO credit-scoring system, however, minor delinquencies are now overlooked in calculating creditworthiness.

Under the updated scoring model, called FICO 08, small, missed payments lingering in collections with original amounts of \$100 or less will no longer do damage to your credit score.

Consumers also are less likely to be penalized for any single delinquency if it occurred two or more years ago — and if their credit history is otherwise unblemished, says FICO, formerly Fair Isaac Corp., which developed the FICO scoring system.

“There's more flexibility with missing a payment,” said Careen Foster, director of global scoring product management for FICO. “If you have a more habitual pattern of paying accounts late ... you're more likely to get penalized for that.”

If a consumer's credit usage is high, that will be more likely to hurt his or her score with FICO 08. But getting close to your credit card limits — even if you always pay on time — is penalized in some way in every FICO score, not only the recent edition, Foster said.

The new system has been available at all three credit bureaus — Experian, TransUnion and Equifax — since last month.

The changes were made to provide lenders with a better risk assessment of borrowers, said John Ulzheimer, president of consumer education for [Credit.com](#), a consumer education and advocacy site. FICO decided that one small library fine didn't really predict whether a consumer was likely to default, for example.

With the changes, individuals who pose a low credit risk will probably see their scores rise a bit, and those who are high risk could see their scores drop.

FICO 08 also addresses “piggybacking,” a practice used by credit-repair companies to help people improve their scores, Ulzheimer said. In piggybacking, an individual pays to become an authorized user on a stranger's account. The account holder gets paid for allowing the person to be associated with the account, and the new authorized user is able to improve his or her credit score.

“It was a practice to . . . misrepresent what your credit looks like to your bank,” Foster said.

FICO 08 aims to single out individuals who are named as authorized sources through deceptive means, Ulzheimer said. Those people won't see their credit scores rise as a result. But the scores of legitimate authorized users will be treated as they always have been.

Borrowers shouldn't expect their credit to be graded by this new scale on every loan they now apply for. Not all lenders have adopted the new model, though more than 400 lenders are using or testing FICO 08, the company said.

In a statement, Equifax said, “Currently, many lenders and businesses are validating the new score within their systems, and adoption will vary by financial institution based on business requirements and market need.”

Many credit card companies, auto lenders, regional banks and credit unions may have adopted FICO 08, Ulzheimer said. But for mortgages, lenders doing traditional conforming loans backed by Freddie Mac and Fannie Mae probably haven't made the move yet, he said. That's because they're waiting for Freddie and Fannie to approve its use.

Freddie Mac and Fannie Mae “are essentially the lender. . . . They're the ones that set the underwriting criteria,” Ulzheimer said.

Ulzheimer said he expects Freddie and Fannie to adopt FICO 08 by the end of the year. Fannie and Freddie declined to comment on FICO 08.

While FICO 08 will help consumers' credit scores in some cases, people still should take steps to improve their credit. Granted, it's impossible for consumers to calculate their FICO scores themselves, said Rodney Anderson of Rodney Anderson Lending Services in Plano, Texas.

“It's almost like the Coca-Cola formula. No one has access to the Coca-Cola formula; no one has access to the FICO formula,” Anderson said.

But by being proactive, you can start to work toward a higher score, something that will serve you well every time you apply for a loan.

Some suggestions:

Monitor your credit reports and correct errors. Look not only for negative events on your record, but also examine the credit limits to make sure they're accurate. If the credit limits appear lower on the report than they actually are, that has the potential to hurt your score, Anderson said.

Pay bills on time and keep card balances low. Your payment history, and the amount you owe on your accounts as a ratio of the amount of credit you have access to, are important components of your score, Foster said. FICO 08 is more sensitive to high credit usage, and consumers may see a lower score if their reported balance on one or more cards is near the account's limit.

Take on new credit only when you need it. Some credit cards come with great offers, including a percentage off your bill if you sign up for one at the cash register. If you accept, make sure you're getting a big-enough benefit to make it worthwhile — taking on additional credit could end up dinging your score, Foster said.

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