

## Credit Scoring: Facts & Fallacies

**Fallacy: My score determines whether or not I get credit.**

**Fact:** Lenders use a number of facts to make credit decisions, including your FICO, or credit score. Lenders look at information such as the amount of debt you can reasonably handle given your income, your employment history, and your credit history. Based on their interpretation of this information, as well as their specific underwriting policies, lenders may extend credit to you although your score is low, or decline your request for credit although your score is high.

**Fallacy: A poor credit score will haunt me forever.**

**Fact:** Just the opposite is true. A credit score is a “snapshot” of your potential risk at a particular point in time. It changes as new information is added to your bank and credit bureau files. Credit scores change gradually as you change the way you handle credit. For example, past credit problems impact your score less as time passes. Lenders request a current credit score when you submit a credit application so they have the most recent information available.

**Fallacy: Credit scoring is unfair to minorities.**

**Fact:** Credit scoring considers only credit-related information. Factors like gender, race, nationality and marital status are not included. In fact, the Equal Credit Opportunity Act (ECOA) prohibits lenders from considering this type of information when issuing credit. Independent research has been done to make sure that credit scoring is not unfair to minorities or people with little credit history. Credit scoring has proven to be an accurate and consistent measure of likelihood of repayment for all people who have some credit history. In other words, at a given credit score, non-minority applicants are equally likely to pay as agreed.

**Fallacy: Credit scoring infringes on my privacy.**

**Fact:** Credit scoring evaluates the same information lenders already look at – the credit bureau report, credit application, income and asset documentation. A credit score is simply a numeric representation, or summary, of that information. Lenders using credit scoring sometimes ask for less documentation as support for information on a credit application.

**Fallacy: My score will drop if I apply for new credit.**

**Fact:** While this is possible if your credit score does drop it probably won't drop much. If you apply for several credit cards within a short period of time, multiple requests for your credit report information (called “inquiries”) will appear on your report. Looking for new credit can equate to higher risk, but most credit scores are not affected by multiple inquiries from auto or mortgage lenders within a short period of time. The credit scoring models utilized today are smart enough to understand that an applicant isn't necessarily applying for multiple auto or mortgage loans, but simply shopping for the “best” deal. Typically, these are treated as a single inquiry, respectively, and will have little impact on the credit score.