

# The Complex Reality of How Credit Works

- A. History of Credit**
- B. Impact in today's lives**
- C. Risk Modeling (predictive nature)**
- D. Data mining**

## **Breakdown of Score Factors.**

Current scoring model of FICO ranges from 300 to 850. The higher the score lower the risk.

- 800 to 850 Excellent
- 750 to 800 Very Good
- 710 to 750 Good
- 650 to 710 Average
- 600 to 650 Poor
- 300 to 599 Generally Un-lendable

## **What's In Your Credit Score**

Payment History 35%  
Amount Owed 30%  
Length of History 15%  
Types of Credit Used 10%  
New Credit 10%

## **What's In Your Insurance Score**

Length of History  
Outstanding Debt  
Late Payments  
Number of Trade Lines  
New Applications for Credit  
Past Claims Data  
Bankruptcy and Collections

## **Examples of Typical Point Deductions**

The higher the credit score, the more dramatic the point deduction. These deductions are based on credit scores ranging from 780 to 800 on FICO.

- 30 day Mortgage Late -110 points
- 60 day Mortgage Late -135 points
- 30 Installment Debt -65 to 100 points
- Debt Settlement -125 points
- Deed In Lieu Of -110 points
- Foreclosure -165 points
- Short Sale -85 to 145
- Bankruptcy -240 points
- Tax Lien's -60 to 80 points
- High Credit Usage -45 points per card
- Inquiries (hard bits) -10 points per

## **The Card Act and its Implications**

- Creditor must establish "Ability to Pay"
- Establishes 45 Day Notice to raise rates or charge "fees"
- Must divulge "go to" rate once introductory rate expires
- Must show how long it takes to pay off debt at minimum payment rate
- Establishes 60 day late period before rate can be raised ( remove late)
- Establishes rate on new account be fixed for first 12 months
- Establishes rate increases only on new charges
- Ends "Universal Default"
- Ends "Marketing to Minors" on college campuses
- Places restrictions on "over limit fee's"
- Standardizes Payment Date each month
- Establishes "reasonable penalty fee's for late payments
- Ends Two Cycle Billing
- No inactivity fees can be charged

## Other Risk Models Available

The following are some of the risk models that Insurance and Financial Institutions have available. There are over 200 Consumer Information Bureau's in America They collect and store data on YOU.

**Credit Score Bankruptcy Score Transaction Score Transaction Velocity Cash Advance Score Gambling Activity Score Attrition Risk Score Credit Capacity Index Score Bounced Check and Overdraft Score Medical and Prescription Drug History Report Employment Background Report Check Writing History Report Work Data Employment Report Residential and Tenant Report Insurance Claims Report**

## Data Mining and Predictive Risk Modeling

Facebook, YouTube, My Space, and Twitter are all social networking sites that are data mined each day. The information gathered is collated and used to constantly update the predictive risk models used by those looking for an edge in their respective fields. It has been estimated that the Homeland Security through the NSA gathers 6 million **Billion** bytes through data mining each day. As a side note, It has been reported that every American appears on camera 14 times per day( statistically). It is also reported that there are over 200 million files on Americans, with respect to the above listed information. DARPA has been utilizing predictive risk modeling for the past few years.

## Examples of a Credit Clean Up

- Obtain scored credit reports from all three CRA's. You may do that at [fico.com](http://fico.com). Cost aprx. \$40.00
- Make sure all information is accurate. A Federal Reserve Bank study concluded that 60% of all credit reports contained errors. Of those, 30% were "material" (costing you point % 's)
- If 30 day late payments are showing, make sure that they are "full" 30 days late. Obtain copies of the check, look on back and see what day they were deposited in the creditors account.
- Did a late appear on a co-signed line? If the creditor did not inform you that the account was late and did not demand remedy, then you can have the late removed.
- Is there charge-offs showing? Was the debt sold to a collection agency? If the charge off was paid, have it removed.
- Collection Items. If one is showing, is it yours? If you are unsure, have the collection agency *prove* it is yours.
- Public Records are a hot spot for errors. If any public records show, make sure that they are yours and they are accurate.
- The creditors list of your credit report shows all your creditors. This list will provide you the ability to contact your creditor if you need to. If you find a creditor that you know isn't yours, check your list if addresses. An address appears that you don't recognize, then there is a tradeline in your report that corresponds to that creditor and that address. Have the error removed.

## Improving Credit Scores

Carry lower balances. Never charge more than 30% of limit 10% is ideal.

- Have a good mbc of Credit
- Make sure all payment are timely.
- Unbilled for Payment This can improve your score as much as 7% per year.
- Make sure Creditor is reporting you accurate limit.
- Do not apply for store cards for promotional discount
- If you purchase a car or house, get 1 payment ahead and stay 1 payment ahead

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