

UNDERSTANDING CREDIT SCORING

Credit scoring is a system used by banks and other lending institutions to help them determine whether to give you credit. Under this system, a creditor collects information about you and your credit experience; then, using a statistical program, compares this data with the credit performance of consumers with similar profiles. The system awards points for various factors. The total number of points your credit score helps predict how likely it is that you will repay a loan and make the payments when due.

More and more banks are adopting credit scoring as a method of determining whether to grant business loans because:

1. It's based on real data and statistics, so it usually is more reliable than subjective methods.
2. It helps lenders ensure they are applying the same underwriting criteria to all borrowers regardless of race, gender, or other factors prohibited by law from being used in credit decisions
3. It greatly reduces the time needed in the loan approval process. This saves the banks money, and gets funds into the hands of qualified applicants faster

Though credit scoring models are complex and varied, almost all of them include these types of information:

- **Have you paid your bills on time?** Payment history is a significant factor. Your score will be affected negatively if you've paid bills late, had an account referred to collections, or declared bankruptcy.
- **What is your outstanding debt?** The amount of debt you have is compared to your credit limits. If the amount you owe is close to your credit limit, that's likely to have a negative effect.
- **How long is your credit history?** An insufficient credit history may have an effect on your score, but that can be offset by other factors such as timely payments and low balances.
- **Have you applied for new credit recently?** If you have applied for too many new accounts recently, this may hurt your score. (Some inquiries are not counted, including those by creditors who are looking at credit reports to make prescreened credit offers.)
- **How many and what types of credit accounts do you have?** Having too many credit card accounts may have a negative effect on your score. Loans from finance companies may also have a negative impact.

If you are denied credit, the Equal Credit Opportunity Act requires the creditor to give you a notice telling you the specific reasons your application was rejected or inform you of your right to learn the reasons if you ask within 60 days. Indefinite and vague reasons for denial are illegal. Acceptable reasons include: Your income was low, or you haven't been employed long enough. Unacceptable reasons include: You didn't meet our minimum standards, or you didn't receive enough points on our credit scoring system.'

You can obtain your credit score and your credit report. Equifax (800-685-1111 or [www .credit.equifax.com](http://www.credit.equifax.com)), Experian (888-397-3742 or www.experian.com) and TransUnion (800-888-4213 or [www .transunion.com](http://www.transunion.com)).