Mortgage lenders must determine if borrowers have the willingness and ability to repay their loans. To help make this determination, lenders will consider your credit report and score. Credit records include the following information:

- Identifying information (name, address, employer, Social Security number, etc.)
- Debt and payment history on credit cards, student loans, consumer loans, car loans, etc.
- Any previous collections
- Any tax liens, judgments, and bankruptcies
- Inquiries for additional credit

UNDERSTANDING YOUR CREDIT SCORE

A credit score is generated when a credit reporting agency runs credit information through its scoring system or model. When information on your credit report changes, your credit score may change as well. Also, your score may be different at each of the main credit reporting agencies. The score from each agency uses only the data in your credit report in that company’s system. If your scores from the credit reporting agencies are different, it’s probably because of information and system differences.

By law, you are entitled to receive one free credit report from each of the three national credit reporting agencies — Equifax, Experian and TransUnion — per year. You can order them or view them immediately online at www.annualcreditreport.com — after you provide information to identify yourself. With this service, it is easy to check your credit report at all three agencies once a year.

For your scores to be calculated, each of your three credit reports must contain at least one account that has been open for at least six months. In addition, each report must contain at least one account that has been updated in the past six months. This ensures that enough information — and enough recent information — is in your report to generate a credit score.
Credit Score Models
There are several credit scoring models used by lenders. While they may vary slightly, they are all based on the same basic criteria. The factors considered in most credit scoring systems include:

- How you have handled credit in the past
- The amount of credit you have used compared to your credit limit
- The length of your credit history
- The number and types of credit accounts
- How active you are in applying for new credit
- Public records pertaining to credit

These factors impact your score differently. For example, in one scoring model, this is how information is weighted:

- Payment history: 35 percent
- Amounts owed: 30 percent
- Length of credit history: 15 percent
- New credit: 10 percent
- Types of credit used: 10 percent

It is important to note that there are several factors that may NOT be considered in credit scoring, including:

- Race
- Religion
- Gender
- Marital status
- Nationality
- Age
- Receipt of public assistance

Important Facts About Credit Scores
No single factor, such as a previous collection or a bankruptcy, can cause a “low” score. Credit scores improve as credit behavior improves. Recent credit behavior weighs more heavily on scores than credit behavior in the past. As time passes, the relative weight of a poor mark on your credit record diminishes. However, there are no quick fixes. A short-term improvement will not cause a low score to improve dramatically.
ABOUT CREDIT REPORTS

Review and protect your credit records. Before applying for new credit, such as a mortgage, be sure your credit records are accurate. Check your report at all three major credit companies — Equifax, Experian and TransUnion — annually. If you’ve been denied credit, you can always get a free credit report (regardless of whether you’ve already received your annual free report). If any of your credit reports contain inaccuracies, contact the credit agency that compiled the report.

All three agencies detail their dispute processes on their web sites. The Fair Credit Reporting Act (FCRA) requires the agency to investigate your disputed items within 30 days. The credit reporting agency must provide you with written notice of the results of the investigation within five days of its completion, including a copy of your credit report if it has changed based upon the dispute.

The Federal Trade Commission (FTC) and the Consumer Financial Protection Bureau (CFPB) are responsible for enforcing the FCRA. The FTC and CFPB also publish information on their web sites that contain additional information on credit reports. These materials are available online at:

**FTC**
http://www.consumer.ftc.gov/topics/credit-and-loans

**CFPB**
http://www.consumerfinance.gov/askcfpb/316/where-can-i-get-my-credit-score.html