



Understanding Credit Scores

Credit scores today are generated by a complex series of algorithms designed to assess the risk that a borrower will have a late payment within 24 months. By using the scoring system, credit bureaus can provide an objective risk ratio for a borrower's potential to pay back loans on time. Lenders offer interest rates based on those scores.

Components of the score

Though the model evaluates each data element with respect to "Recent-cy," "Frequency" and "Severity," the most important of these perspectives is recent-cy.

35% - Payment History -

The perspective weighted most heavily in assessing payment history is recent-cy.

- Age of last late payment < 7 months = big hits
- Age of last late payment < 7-24 months = less hit
- Age of last late payment < 24months = significant relief



30% - Balances

This portion of the score assesses how wisely an individual utilizes their credit. Ideally a borrower should have between 3-5 credit lines. If the ratio of cumulative available revolving credit to cumulative current balance is high, the credit score will take a hit.

Ratio < 50% = no hit

Ratio > 50% but < 75% = less hit

Ratio > 75% = big hit

15% - Credit History

This portion of the score assesses the number of new trade lines and their respective ages. If trade lines need to be closed, careful consideration must be made to the effects of trade line age per credit amount extended. The most credit-scoring-wise decision would be based on the reason codes in the individual report making specific accommodation for individual circumstances.

10% - Type of Credit

This portion of the score reflects what the scoring engine determines a "good" mix of credit types. What is "good" in one profile type may not be as good if assessed according to another profile type. Across all profiles however, finance company credit lines are negatively assessed.

10% - Inquiries

Because the engine assumes that a person applying for multiple trade lines within a short period of time may be indicative of financial trouble, this portion of the scoring engine examines the number of inquiries over time made to an individual's credit report. The scoring engine treats certain economic sectors differently than credit line issues. If an inquiry is made by a lender within the last 12 months, the mortgage financier gets a 30 day window during which time additional inquiries will not negatively affect the score.

Your credit report is a crucial part of the credit scoring system, so it is important that you review your individual report on an annual basis. For more information on your credit report and how it may affect your mortgage qualification, talk to your Axiom Mortgage Consultant. It's the first step toward home ownership.

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