

## What is my FICO Score and Why Does it Matter When I'm Buying A House?

If you're thinking of buying a home in the area, and you're not paying cash (and how many of us are doing that?), you're need to know your FICO score.

The FICO score is the most widely used measure of credit worthiness in the U.S. and it is the primary factor lenders consider when you apply for a mortgage. FICO was first introduced in 1989 by the Fair Isaac Corporation—hence the acronym.

FICO scores range from 300 to 850—the higher your score, the more credit worthy you are. Your score is calculated by a mathematical equation that takes into account the weight of many different factors on your credit report. There are actually 27 different scoring models with three main ones used for mortgages, auto loans and credit cards. A median score for a mortgage is 679. The general breakdown is as follows:

- 50% of your score is based on payment history and length of payment history. This includes loans for cars, homes, tuition and other long-term loans.
- 30% on the amounts you currently owe
- 10% on the types of credit you have been extended in the past
- 10% on new credit.

However, the weight of these factors may vary depending on the length of your credit history.

A sample profile of a high credit score would include at least 2 installment loans with balances (auto, student loans, mortgage); 3 revolving credit cards with balances of less than 30% of the card's maximum, and no record of collections or late payments. Although it may seem counterintuitive, it is a good idea to keep accounts open, even when you have paid off the balances. Closing accounts tends to negatively affect your score.

The mortgage interest rate for which you qualify is based on your FICO score. Generally, the higher your score, the lower the interest rate and vice versa. Whether or not you are required to have mortgage insurance may also be based on this score, as well as the amount of your down payment.

If you are applying for a conventional mortgage, the lender will determine what minimum score will make you eligible for the loan, in addition to the price of the home and other financial obligations. Fannie Mae, Freddie Mac, FHA and other government loans have established minimum FICO score requirements.

If you are interested in learning more about FICO scores, visit [www.myfico.com](http://www.myfico.com).

Coming soon:

How to Improve your Credit Score

How to Deal With Delinquent Fees

How to Resolve Credit Disputes

Loan Modification Alternatives

Short Sale and Foreclosure and their Effect on Credit Scores

Bankruptcy and Your Credit Score