

101

Credit Scoring



bSquared Credit

Our clients often ask, “Why does Credit Karma tell me my credit score is 680, but my loan officer gets a DIFFERENT score when she/he pulls my credit report? Shouldn’t my numbers be the same? What’s going on here?”

DON'T WORRY! WE'VE GOT THIS.

By the time you're done reading this article, you'll understand:

- Why your credit scores matter
- How the credit scoring process works
- Why you get different scores from different sources
- How to obtain your credit scores
- How to improve your credit scores

Why does my credit score matter in the first place?

Your credit score impacts your daily life. It can determine where you live and the quality of your lifestyle. It can help you advance your education and career, get the loan you need to take your next big life step, and prepare you for a comfortable retirement.

Having a poor credit score can be embarrassing and stressful, and can prevent you from living the life you desire. Because low scores often mean higher loan fees, a poor credit score can put a major dent in your finances.

For lenders and landlords, your credit score is the most reliable indicator of your trustworthiness. Knowing your score helps them decide if they will do business with you, and what the pricing terms will be.

YOUR CREDIT SCORE = YOUR LEVEL OF TRUSTWORTHINESS

Is your current credit score an accurate representation of the real, trustworthy, motivated, goal-crushing you?

If not, we have great news, you can improve your credit score, take control of your financial health, and reduce stress in the process!

But to do this, you need to understand how credit scoring works.

How are credit scores determined?

Let's start with the basics.

A credit score is a computer-generated three-digit number that typically ranges between 300–850. This score helps lenders make quicker decisions about approving or declining loan requests, and when loans are approved, what the related pricing should be (risk-based pricing).

A high score indicates low risk to lenders, and a low score indicates high risk. Simply put, the higher your score, the more likely you are to repay your loans.

Your credit score is generated using past and present creditor payment data on your credit report. Your credit report includes the following creditor information:

- Account data such as credit limits, loan amounts, balances, and open dates
- Payment history, both positive and negative
- Derogatory information, including collections, bankruptcies, and liens



NOTE: Businesses that receive payments, such as utility companies, healthcare providers, and cell phone servicers are not included in your credit report. That said, missed payments for any type of obligation, including the examples above, often appear as collections on your credit report and can drop your credit score 40-80 points.

OK, that makes sense. But why do I get different scores from different sources?

There are three important variables that can dramatically impact your credit score:

1. Which CREDIT BUREAU it comes from
2. Which BRAND of score you choose
3. The DAY your score is pulled

CREDIT SCORES VARY BY CREDIT BUREAU

Your credit score is generated using your credit report data, and your credit report is developed and managed by data collection agencies known as credit bureaus.



Typically, on a monthly basis, creditors report your account activity and historical data to one, two, or all three of the national credit bureau agencies:

TransUnion^{tu}

experian[™]

EQUIFAX[®]

Because each credit bureau may have unique data about you, your reports and credit scores can be very different. For this reason, a lender will look at all three credit bureau reports and scores when decisioning large loan requests such as a home loan. Having more information enables the lender to have a better picture of your financial health and more insight into the risk you may present. On the other hand, for smaller installment loans and credit cards, a lender will typically pull only one report and score, using the credit bureau vendor of their preference. In these cases, you are typically not informed in advance of the credit bureau your lender will be using.

THE 3 C'S OF CREDIT REPORTING DATA

The type of credit reporting data used by the scoring models fall into 3 unique categories:

CHARACTER • CAPACITY • CAPITAL



CHARACTER

YOUR CHARACTER is predicted by your past management of financial obligations as it shows your honesty and reliability.



CAPACITY

YOUR CAPACITY for taking on a new loan is mainly determined by your ability to repay the debt based on all of your other obligations.



CAPITAL

YOUR CAPITAL reflects the access you have to assets and investments that could be used to repay your loan if income becomes unavailable.

CREDIT SCORES VARY BY BRAND

In addition to the three BUREAUS, there are several BRANDS of credit scores – don't be fooled into thinking they are all the same.



Let's demonstrate this point by using an analogy of familiar consumer products - ketchup.

When you shop for ketchup in the condiment aisle of the grocery store, you see a large assortment of brands and varieties. Heinz is the most consumed ketchup on the market, and has the highest sales. The Heinz brand also has several varieties of ketchup – you can choose from organic, spicy, or low sodium, to name a few.

But Heinz isn't the only brand of ketchup available. If you are buying ketchup for your child's birthday party on a budget, you might choose to buy the least expensive generic store brand. For your own family, you may choose the Heinz organic ketchup with all natural ingredients.

Think of the FICO® brand as the Heinz ketchup of credit scoring. Over 90% of lenders use FICO® scores to make loan decisions because they've been proven to be the most predictive scores on the market – they have the ingredients and recipe that lenders trust most. But with high quality comes a higher price. FICO® scores are usually the most expensive scores, and most consumers only obtain them from their lenders on special occasions – when they apply for credit.

But just like Heinz isn't the only ketchup on the shelf, there are other brands of credit scores available in the marketplace. Many consumers use credit-monitoring tools like Credit Karma and IdentityIQ to obtain their credit reports and scores. These websites often use VantageScores. While VantageScores are still predictive of risk, use a similar scoring range (300-850), and use the same data sets as FICO® credit scores, they assess risk differently, which means that you are likely to wind up with scores that are very different from your FICO® credit scores.

Most consumers have no idea there are multiple brands of credit scores

What makes Heinz ketchup the preferred choice for most consumers is its special recipe. Even when competing brands use the EXACT same ingredients, they're used in different amounts: they don't taste the same because their recipes are different. The same can be said about competing credit scoring brands -- although identical data is used, their credit scoring models analyze risk differently, yielding different results.

Understandably, most consumers who obtain their credit scores online through a credit monitoring service, have no idea there are multiple brands of credit scores, because the brand is rarely mentioned by name on their credit report. Often, what they are really seeing are non-FICO credit scores such as VantageScore – the off-brand, generic ketchup instead of the Heinz you thought you were buying.

Just like Heinz makes several types of ketchup, FICO makes several types of credit scoring models. Lenders can pick the model that best matches the application type. If a client is applying for an auto loan, the lender will most likely purchase the FICO® Auto credit score.



CREDIT SCORES DIFFER BY DAY

We want you to be proud of your credit score, but we don't recommend tattooing it on your body – it's CONSTANTLY changing!

The simple explanation for why your credit scores fluctuate so frequently, even daily, is that your credit report information is changing. Recalculations of credit scores occur when your credit report receives updated creditor information.

Creditor account updates are usually sent to the credit bureaus just a few days after the due date on your account cycle date (commonly referred to as the statement date). For example, if your credit card payment is due on the 15th of each month, you may have a 3-day grace period, after which your account cycles on the 18th and your new statement is created. Your data is then sent to the credit bureaus, and they take one to seven days to post the updates to your personal credit reports.



Okay, so how do I get the BEST POSSIBLE picture of my credit scores?

Credit monitoring services offer you the ability to view your credit reports and scores on a regular basis so you can monitor your credit health. IdentityIQ provides access to your three credit reports and VantageScores. If you would like to look at your credit reports through IdentityIQ, you can use our discount link to get all three credit reports and VantageScores for only \$1.00. If you don't wish to monitor your credit, you can call IdentityIQ within 7-days to cancel the account. If you choose to monitor your credit health monthly, which we highly recommend you do, after the 7-day trial expires, you will be given our \$19.99 monthly rate, which is 35% off their retail pricing.

bSquared Credit's discount link for IdentityIQ:
<https://www.identityiq.com/get-all-your-reports-now.aspx?offercode=431129MY>

WAIT STOP! Doesn't it hurt my credit scores to check my scores too often?

Great news! No, because it's considered a "soft pull" when you obtain your credit reports through services such as IdentityIQ for educational purposes, and a "soft pull" does NOT impact your credit scores. However, when you apply for credit and a lender pulls your credit report it's considered a "hard pull," which CAN temporarily impact your credit scores.

Okay, great. Go on.

If you aren't planning to make a major purchase in the next 6-months, your VantageScore is a great way to affordably educate yourself on your overall credit health. However, if you plan to make a major purchase, like a home, within 6-months, you should obtain your FICO® scores. You can do this by going to myfico.com and purchasing your reports and FICO® scores, or by applying for a loan and having your lender pull your FICO® scores for you.

Now that you have a better understanding of how your credit scores are calculated, we hope you've decided to take an active role in improving your overall credit health.



Regardless of which credit reports and scores you obtain, you should ask yourself:

**“DOES MY
CREDIT SCORE
REFLECT
THE REAL ME?”**



If the answer is no, our credit experts at bSquared Credit are here to help!

We will review your credit reports and scores and provide our expert, customized recommendations for how to improve your credit health. Because each consumer's credit report is unique, your specific credit challenges will not be solved by a one-size-fits-all solution.

During our free consultation, we create a unique step-by-step plan that will take you from credit distress to credit success as efficiently and effectively as possible! Don't wait – you understand now why your credit scores matter. Let's get you on the path to achieving your goals.



bSquared Credit

**THREE EASY WAYS
TO CONTACT US
IN ORDER TO OBTAIN YOUR
FREE
CREDIT CONSULTATIONS**



www.b2cr.com



info@b2cr.com



[800.604.0270](tel:800.604.0270)

MEET ROBERT

One of our clients, Robert, called us because he was understandably frustrated with his credit score experience. For months he had monitored his credit scores at IdentityIQ and his middle credit score was 710. The previous morning Robert had applied for an auto loan, and he shared his scores with his lender. He was shocked – and embarrassed -- to learn that when his loan officer pulled his credit reports and scores, his middle credit score was only 668. What?! This was 42 points lower than Robert thought it was. Although his auto loan was still approved, Robert's interest rate was 6% higher than what he was quoted which is estimated to cost him hundreds of more dollars over the life of his six-year installment loan. Robert questioned how this was even possible, when both scores were pulled on the same day.

To help him understand the answer, we asked Robert to pull his myfico.com credit reports and FICO® credit scores. Together we compared his FICO® scores to his IdentityIQ VantageScores and discovered that his credit scores differed by as much as 77 points between the brands of credit scores, the bureaus, and by the unique FICO® credit scoring models.

HERE'S WHY

Provided below is a screenshot of Robert's IdentityIQ VantageScores. At the top of the page the scores are simply referred to as "credit scores". In small print, the IdentityIQ report (similar to most other credit monitoring credit reports including Credit Karma) indicated the scores were VantageScore 3.0. The lack of the brand name next to the scores most likely contributed to Robert's confusion, because he assumed the scores were FICO® credit scores, based on FICO's popularity. Also, most consumers don't know that multiple brands of credit scores exist.

Credit Score

Information icon Your Credit Score is a representation of your overall credit health. Most lenders utilize a form of credit scoring to help determine your credit worthiness.

	TransUnion	Experian	Equifax
Credit Score:	710	708	715



HINT: Always Read the Small Print!



By contrast, Robert's myfico.com report clearly provides his FICO® credit scores which are unique for each model type. Lenders can choose from several credit scoring models as FICO develops unique scores for each application type. If you have had late payments and/or have defaulted on an auto loan in the past, and you are applying for an auto installment loan, your FICO® Auto credit score will most likely be lower than your other FICO® scores.

ROBERT'S CREDIT SCORE COMPARISON

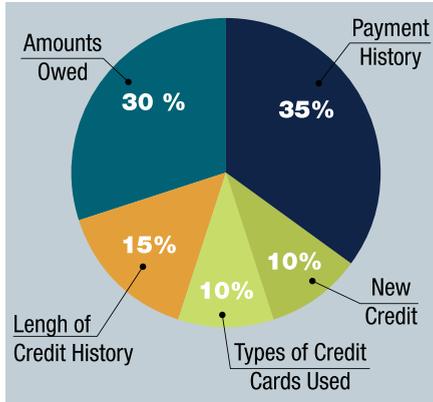
	FICO SCORES				VantageScore	Low to High Difference
	Auto	Bankcard	Mortgage	General	General	
EQUIFAX	668	673	703	657	715	58 POINTS
TransUnion	651	655	696	638	710	72 POINTS
experian	678	665	702	654	708	54 POINTS
Low to High Difference	27 POINTS	18 POINTS	7 POINTS	19 POINTS	7 POINTS	

After we compared the different credit scores, Robert understood why he and his loan officer received different credit scores on the same day: The scores came from different credit reporting agencies, different credit scoring brands, and different credit score model types were used.

The unique weighting in each credit scoring model is the biggest reason why the scores are different when comparing the same credit bureau data.

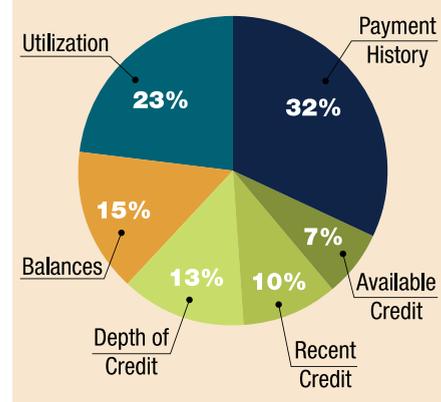
FICO® SCORES

BREAKDOWN



VantageScore®
a higher level of confidence

BREAKDOWN



VS

Let's take an even closer look into why Robert's FICO® scores were lower than his VantageScores:

- Robert's historical payment data makes up 35% of his FICO® credit scores whereas his payment history only makes up 23% of his VantageScores. Since he does have derogatory items including: old late payments on miscellaneous paid off accounts, a collections and an older charged off account his FICO® scores are more heavily impacted than his VantageScores. We completed six months of credit repair for Robert and cleaned up 85% of the negative items on his credit reports which helped drive his credit scores up by an average of 80 points. He saw larger score improvements in his FICO® scores than his VantageScores due to the higher FICO® model weighting for payment history.
- Robert's revolving account balances were high when compared to his credit limits which has a greater impact to

his FICO® credit scores than, his VantageScores. When you add up his credit card and retail store charge card balances and divide them by his total available credit limits, you get his revolving utilization rate which is 68%. A revolving utilization rate makes up 30% of a FICO® credit scores vs. only 23% of a VantageScores so when his balance to limit ratio is over 30%, it negatively impacts all of his credit scores. Once Robert paid down his card balances, his FICO® scores went up by an average of 40 points and his VantageScores 30 points. His FICO® scores increased more because of the higher weighting for utilization within the FICO® credit scoring models.

- Robert also has a young credit file. His good, active credit is only four years old. This impacts 15% of his FICO® scores vs. 13% of his VantageScores thus FICO® being more heavily impacted. As his credit matures, all of his scores will improve however, his FICO® scores will improve a little more.



Nicole Soares
Co-Owner and Chief Operating Officer

As Co-Owner and Chief Operating Officer at bSquared Credit, helping clients achieve financial freedom is the core of Nicole Soares' everyday goal. She's responsible for educating each of bSquared Credit's referred credit-challenged consumers, providing credit repair and coaching to help them improve their scores and qualify for their desired loans at the best possible rate. Nicole's 27 years in financial services have taught her that no two stories are the same, and no one-size-fits-all plan will help every client, so she specializes in creating unique, individual solutions for each client she serves. As a result, after six years in the business, bSquared Credit maintains an industry-leading 99% customer satisfaction rate – unprecedented and unmatched by their competitors.

A graduate of the University of Phoenix with a degree in Business Management, Nicole began her career in finance before she finished high school as a Bank of America employee. In her 13 years with the bank, she served in a variety of roles and climbed the ranks to conclude her tenure as the Vice President of Fraud. Armed with a wealth of experience and knowledge, she relocated to San Diego as a Global Product Manager and a Strategic-Customer Client Partner for FICO, during which time she was responsible for solving international fraud and security challenges. Her holistic understanding of the industry and comprehensive understanding of predictive analytics for credit and fraud scoring make her the ideal ally for anyone looking to regain control of their credit and financial future.

Wherever your starting point is, Nicole is here to demystify the process and get your credit score up where it belongs - working in your favor and helping you achieve success. With her expert guidance, your entire financial future can be restructured in just a few months, empowering you to take the next steps toward your future with bold confidence and a credit score to match it.



READ WHAT OUR CLIENTS SAY ABOUT BSQUARED CREDIT

“My husband and I wanted to buy a house... but our credit was not up to par, not even close. We worked with Brent and his team for about 6 months cleaning our credit. They helped us remove inaccuracies and showed us what we needed to pay off. After our credit was clean they stayed with us and gave us advice on what types of credit we should get to rebuild our credit. We still contact Brent 2 years after and he still helps us with any of our credit questions. We have a house now. We couldn't have done it without Brent and his team. We cannot say enough good things about them!” – **Callaye E. from El Cajon, CA**

“Outstanding, friendly services.... extremely low cost... and most importantly EFFECTIVE!!!! I couldn't get a \$500 credit card six months ago, now I'm in escrow on my home!” – **Jason W. from San Diego, CA**

“I mismanaged my money from the beginning of adulthood... taking out loans and credit cards and not paying them back. I lived check to check, had less than 500 credit scores and was so embarrassed as I felt like I couldn't get ahead. I heard of bSquared Credit from a family member who used them to fix her credit so I made the call for help. Working with bSquared Credit was absolutely life-changing. They were so helpful and walked me through their recommended plan. They led the whole repair process and after 6 months, my credit scores were in the 680s. I achieved score improvements of 180+ points! My husband ended up using their repair services too. In less than 12 months we ended up getting married and we bought our first home together. Thank you for giving us a fresh start we so desperately needed. We couldn't have done it without you!” – **Heidi C. from Seattle WA**

“Unbelievable service!! Nicole helped me fix my credit and answer all of my questions along the way, I highly recommend her and bSquared Credit!” – **Brittany D. from Chico, CA**



800.604.0270



info@b2cr.com



www.b2cr.com