Your Money

# Knowing the score

By Don Kuehn

It will probably never make the Top 10 list of great pickup lines at your local singles bar, but "What's your FICO?" might be one of the more important questions prospective mates can ask each other, or a couple can ask themselves.

Most Americans don't even know what credit scores are, much less how they can cost or save you big bucks when you take out a loan. Lenders, insurers, landlords and even employers are commonly using FICO scores to evaluate applicants.

The dominant credit scoring company is Fair Isaac Co., hence the moniker FICO. The three-digit FICO number (from 300 to 850) represents a snapshot of your creditworthiness. The higher your credit score, the lower your credit risk. A score in the upper 700s will get you the best rates; anything below 500 is pretty much the kiss of death for getting a loan.

For an expanded version of Your Money, go to **www.aft.org/pubs-reports/your_money/index.htm**.

If you never paid much attention to credit scoring, look at this. The impact that FICO scoring has on a $150,000 fixed-rate, 30-year mortgage is shown in the accompanying table (rates change daily). Improving your FICO from 550 to a modest 720 has a potential savings of $376 per month or *more than $135,000 over the life of that 30-year mortgage*.

Most of us know what a credit report is. It details your credit history, the types of credit you use, the length of time your accounts have been open and whether you pay your bills on time. It tells lenders how much credit you've used and whether you've sought new sources of credit.

Your report also shows public information such as bankruptcies, foreclosures, lawsuits, wage attachments, liens and judgments.

FICO scores are based on your credit report.

You should review your report at least once a year, scour it carefully for any mistakes and ask the credit bureau to remove any incorrect information. If you are planning a major purchase on credit, such as a mortgage or car loan, give yourself at least six months lead-time and take the steps necessary to polish up your FICO to save some serious money.

ILLUSTRATED BY ROBERT BAKKIN

The weapon of mass destruction in credit scoring is bankruptcy. It overpowers late payments, delinquencies or collection agencies knocking on your door. Bankruptcy can peel *200 points or more* off your score. Once your score falls below 620, which is inevitable when a bankruptcy is on your record, it becomes very difficult and very expensive to secure credit.

| Your FICO score | Your interest rate | Your monthly payment |
|---|---|---|
| 720-850 | 5.61% | $ 862 |
| 700-719 | 5.74% | $ 874 |
| 675-699 | 6.27% | $ 926 |
| 620-674 | 7.42% | $1,041 |
| 560-619 | 8.53% | $1,157 |
| 500-559 | 9.29% | $1,238 |

Although loan sharks (high-rate lenders) love recent bankruptcies because they know consumers are barred from filing again for at least six years, legitimate lenders usually reject people who have a bankruptcy on their record, and it doesn't drop off your record for 10 years.

If you want to know the score, go to **www.myfico.com** to use the "score simulator" and see how a wide array of actions can affect your credit numbers. If you are just curious about what your score might be, there is a free FICO score estimator available online at **www.bankrate.com/brm/fico/calc.asp**.

Good spending habits, smart use of credit and relentlessly paying monthly obligations on time will burnish your FICO score and make you eligible for the best interest rates and lowest down payments available when you do need to take out a loan. After all, it is *your money*.

So, dude, what's your score?

*Don Kuehn is a retired AFT senior national representative. This column is intended to increase knowledge and awareness of issues of importance to working and retired members. For specific advice relative to your personal situation, consult competent legal, tax or financial counsel. Comments and questions are welcome and can be sent to dkuehn60@yahoo.com.*