PARTICIPANT PRESENTATION

MODULE 6

Understanding Credit Scoring

Freddie Mac

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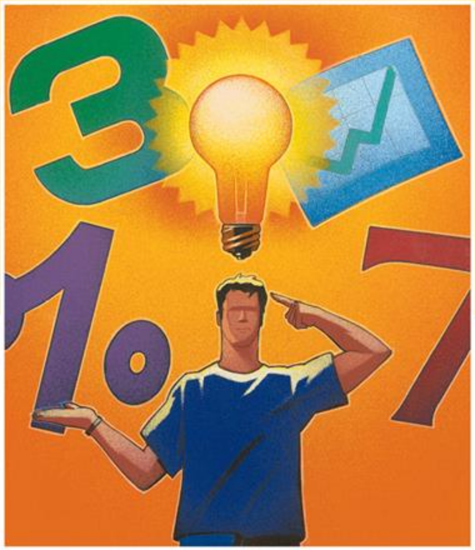
CreditSmart®

A Guide to Better Credit, Money Management, and Responsible Homeownership



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Module 6: Understanding Credit Scoring

Dear Workshop Participant:

Welcome to CreditSmart, Freddie Mac's premier financial education curriculum, designed to help you learn how to build and maintain better credit, and prepare for successful long-term homeownership. Freddie Mac's curriculum is designed to help you increase your financial literacy by providing life-long money management skills. It provides important information about credit and money management and how to avoid financial traps; insight into how lenders assess credit histories; and how credit plays a profound role in achieving your financial goal of buying a home and ensuring successful long-term homeownership.

As a participant, you'll be using a Participant Presentation to follow along through the 12 modules with your instructor. In addition to attending a workshop like this one, you can also complete all 12 modules at your leisure by accessing the Web-Based Training (WBT) online at www.freddiemac.com/creditsmart/consumer_training.

On behalf of Freddie Mac and our CreditSmart affiliates, thank you for participating in our CreditSmart workshop. We wish you great success as you gain the skills and information necessary to achieve homeownership and build a sound financial future.

Module 6: Understanding Credit Scoring

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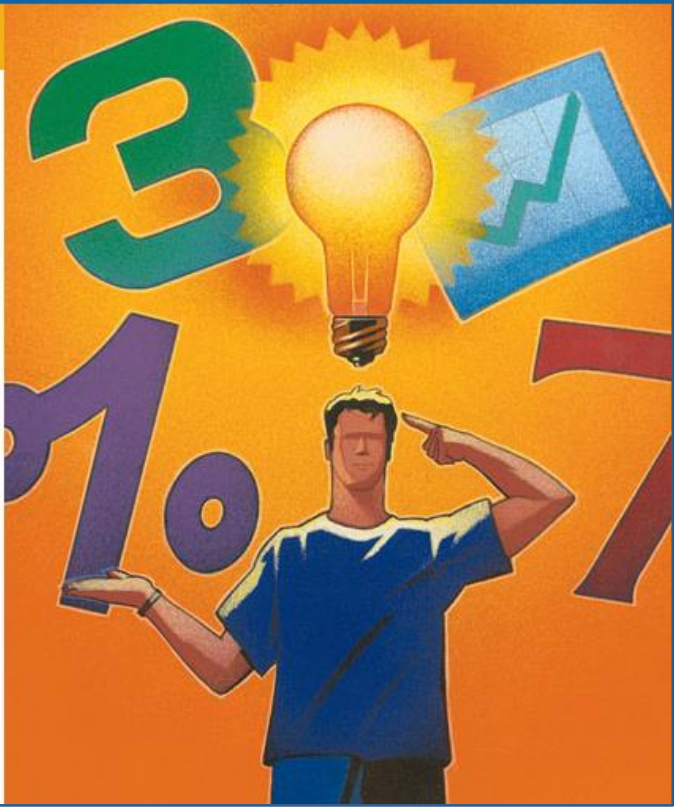
Module Introduction

This module was developed to help explain the process of credit scoring and the various scoring factors.

It will describe credit scoring from a borrower's perspective and illustrate how your behavior as a consumer affects your credit scores.

It will also provide you with some tips on how to potentially improve your credit score over time.



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What is Credit Scoring?

Credit scoring uses statistical models to evaluate your **credit risk** by comparing credit information about you to the credit performance of others with similar **credit reports**.

The models have been developed based on millions of credit report files and are considered to be excellent predictors of the likelihood that an individual will repay a loan.

The ultimate output of these statistical models is your **credit score**.

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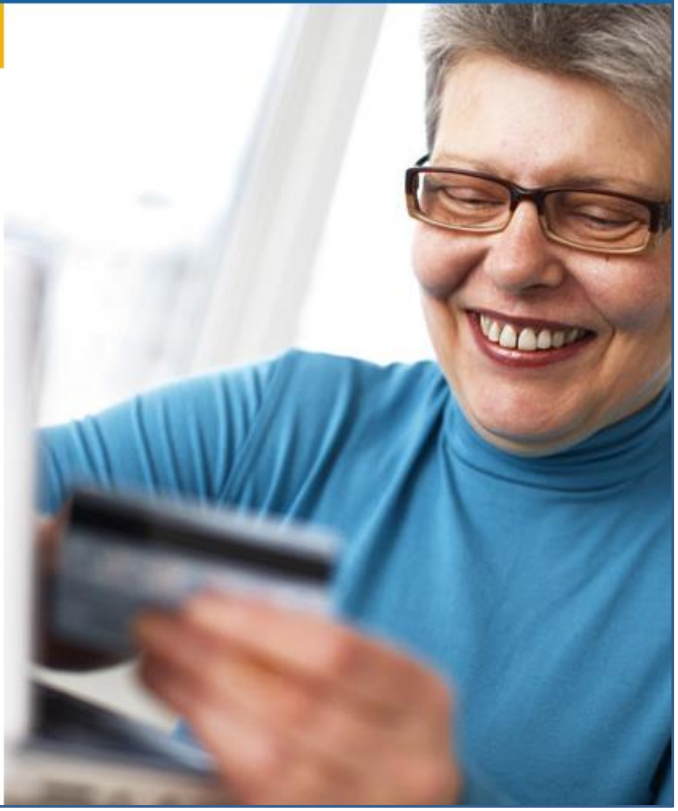
Credit Scores

Credit scores are used - along with your credit report and other information from your **loan** or credit application - to determine whether you will get the financing to make your purchase or secure a loan. Your credit score may also be used to determine the **interest rate** you get on other types of loans.

Credit scores are used widely today because they speed up the loan approval process. What's more, by using credit scores, **lenders** and **creditors** treat each person objectively because the same standards apply to everyone. Credit scores assess each factor in the same way for every consumer, every time.

They do not include race, religion, national origin, gender, or marital status as factors. Credit scores are blind to demographic or cultural differences among people.

No credit score lasts forever. A credit score is a snapshot based on current information in your credit report. Credit scores change over time just like your credit and credit behavior change over time.



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Factors That Influence Credit Scores

Your credit score is based on information contained in your credit report. There are five primary factors used to determine your score:

- Your payment history
- The amount of **debt** you owe
- How long you have been using credit
- How often you've applied for new credit and taken on new debt
- The types of credit you currently use, such as credit cards, retail accounts, installment loans, finance company accounts, and **mortgages**

It's important to note that your income level is not a factor considered in calculating your credit score. Someone with a high level of income, for example, may have a low credit score, while someone with a low level of income might have a high credit score. It all depends on the past use of credit and the factors described above.

Credit Scoring Factors & Approximate Weights

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Instructions:

Read each action in the left column and decide whether it will have an impact or no impact on a credit score. Write your answers in the space provided in the column on the right.

Action	Impact or No Impact
Paying late	
Bank overdrafts	
Income	
Not paying at all	
Having an account charged off	

Continued on the next page

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Action	Impact or No Impact
Having an account sent to collections	
Insurance payments	
Child support and alimony	
Utility and cell phone payments	
Defaulting on a loan	
Filing bankruptcy	
Rent payments	
Checking your own credit	

Continued on the next page

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Action	Impact or No Impact
Having your home foreclosed	
Your interest rate	
Credit counseling	
Closing old credit cards	
Closing credit cards that still have balances	
Having only credit cards or only loans	
Your age	

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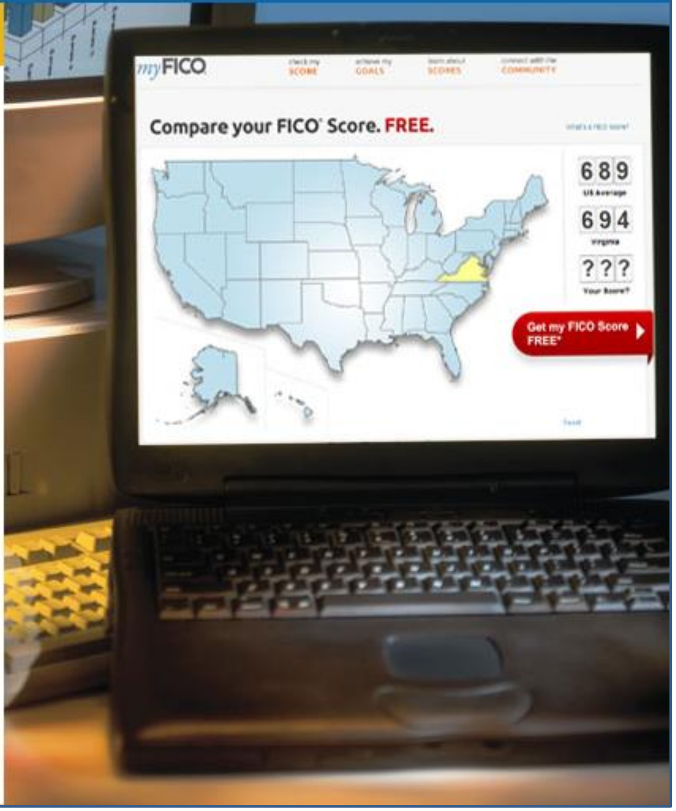
How to Obtain Your Credit Score

The most commonly used credit score today is known as a FICO® score. Developed by Fair Isaac Corporation, FICO scores are ranked on a scale of approximately 300 to 900 points. Generally, the higher the score, the lower the predicted risk to the lender.

You can obtain a copy of your FICO credit score online for a small fee at www.myfico.com. This website also provides additional information on credit scoring, factors, and credit tips.

When applying for a loan, ask your lender or creditor to explain what your credit score means in relation to the final credit decision. Because scoring systems and numerical ratings vary, never assume that your score is good or impaired until it has been fully explained to you by a credit industry professional.



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How to Improve Your Credit Score

If you'd like to improve your credit score, please understand that it takes time.

Because credit scoring utilizes data contained in your credit report, the scoring system is actually analyzing your credit patterns over time. There is no quick fix. In fact, quick-fix efforts can backfire.

You should always make sure that the information in your credit report is correct and manage your credit responsibly over time.

Remember: Credit scores reflect your long-term pattern of credit usage and repayment history. Credit scores automatically improve as your overall credit picture gets better.

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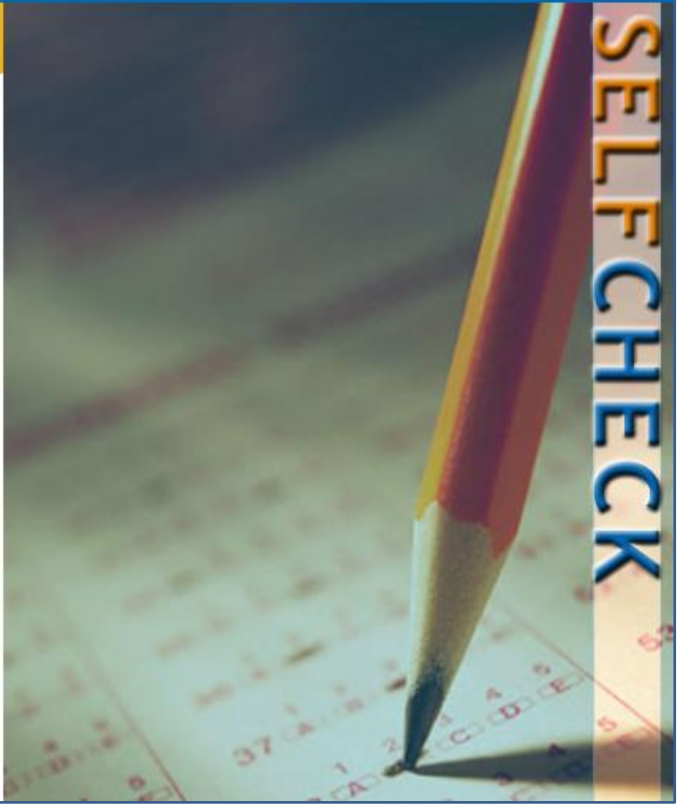
Knowledge Check

Of the factors listed below, which are used to determine your credit score? (Select all that apply.)

- [ ] Payment history
- [ ] Income
- [ ] Amount of debt
- [ ] Types of credit in use
- [ ] Pursuit of new credit
- [ ] Credit history (how long you've been using credit)



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Module Conclusion

Congratulations! You have completed the **Understanding Credit Scoring** module of the CreditSmart Online Training Program.

This module presented you with information regarding how your credit score is determined and provided tips on how you can potentially improve your credit score over time.

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Module 6: Understanding Credit Scoring | Glossary

Term	Definition
Creditor	Creditor is the term used for the person or entity that is providing credit or a loan to a borrower at specific terms and conditions. The term creditor can generally be used interchangeably with the term lender.
Credit Report	A credit report provides a history of your use of credit. Specifically, it's a file maintained by a credit reporting agency that contains information about a person, such as where the individual works and lives; information reported to the credit reporting agency by creditors regarding money borrowed and payments made; and public record information, such as whether the person has filed for bankruptcy.
Credit Risk	Credit risk is the term within the credit industry to refer to the level of risk or likelihood of an individual borrower's future or potential default.
Credit Score	A credit score is a numerical value determined by a statistical model based upon past credit behaviors, which predicts the likelihood of future loan default.
Debt	What is owed to a person or institution for obtaining merchandise or services without immediately paying for them. Usually, a debt is acquired through a loan or the use of credit.
Interest Rate	Interest rates are commonly thought of as the cost of borrowing money. The interest rate is expressed as a percentage. The amount of interest that is paid each year is determined by multiplying the amount of the loan by the percentage.
Lender	Lender is the term used for the person or entity that is providing credit or a loan to a borrower at specific terms and conditions. The term lender can generally be used interchangeably with the term creditor.
Loan	Money you borrow from a financial institution with a written promise to pay it back later. With a loan, financial institutions will charge you fees and interest to borrow the money.
Mortgage	A mortgage is a document that is signed by a borrower when a home loan is obtained and gives the lender the right to take possession of the property if the borrower fails to make loan payments.