

FAMILY FOCUS COLUMN

New Credit Score System

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The world of credit scoring may be getting simpler now that the three major credit reporting agencies (Equifax, Experian, and TransUnion) will be using a new uniform scoring system. The new score, called VantageScore, should be available to consumers later this year after a roll out to lenders.

In the past, each of the credit reporting agencies used their own formulas to generate a credit score so a consumer could have three different scores and lenders dealing with credit or mortgage applications may have to reconcile the three scores. The credit reporting agencies say the new scoring system will “provide consumers and businesses with a highly predictive, consistent score that is easy to understand and apply.”

Under the new scoring system, ratings will range from 501 to 990 and be grouped in an “academic scale”; A = 901-990, B = 801-900, C = 701-800, D = 601 to 700, and F = 501-600; where A and B ratings represent the best potential borrowers and D and F the weakest.

The new score is expected to reduce the variance in a consumer’s score by about 30% compared to the old system. The score will reflect a consumer’s frequency of borrowing, delinquency of paying bills, and other “file content” similar to the components of the FICO model in use since the 1950’s. The FICO score looks at payment history, amounts owed, length of credit history, new credit, and types of credit used.

Information on the cost to consumers for obtaining the new VantageScore is not yet available. Obtaining a FICO credit score from each of the three major credit reporting agencies is now under \$10 each.

The advantages of the new scoring system are yet to be seen as consumer advocates feel it will not eliminate one of the biggest problems of the current scoring system--- incorrect information in a consumer’s files. And the new system may not become universal if lenders choose to continue using an internal scoring system or FICO scores.

As a reminder, a credit score is most often used by a lender to determine credit risk. Lenders will request a credit score when you apply for credit—whether it be a credit card, car loan, or mortgage. FICO scores are the credit scores most lenders use, with scores ranging from 300-850. A credit report on the other hand details your credit history such as types of credit used and if bills have been paid on time. Consumers can request a free annual copy of their credit report from each of the three credit reporting agencies. Call 1-877-322-8228 or go on-line at www.annualcreditreport.com. It’s important for consumers to check their credit reports annually to assure accurate information in the file which can affect the credit score.