

# Credit Scoring: What You Need to Know Myth's and Changes for 2008



Dean Graber  
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It is more important than ever to be aware of your credit and maintain a good credit balance. That means a few credit cards with NO

MORE THAN 35% of the available credit in use, and an installment loan.

**Credit Myth:** *"Piggybacked" credit, where you become an authorized user on an established credit line will help me.*

**FALSE...** The credit reporting systems are eliminating the benefit of an authorized user, yet will hold any future negative activity on that account against you.

**Credit Myth:** *Those free credit reports will have accurate credit scores.*

**FALSE...** You get what you pay for. Most of those reports do not contain a credit score, and some of the ones that do use a "Plus Score", not the "FICO Score" the banks and lenders are using. This Plus score is typically higher than the actual Fico score. I call it a Feel Good score, to get you motivated to buy a product or obtain a home loan, only to be disillusioned later on.

**Credit Myth:** *Consolidating my credit cards to one low rate card will raise my score and look good.*

**FALSE...** Opening a new account will lower your score. Having that account be fully utilized from balance transfers while closing accounts & reducing the amount of available credit will lower your score

The credit scoring system is being tweaked again as Fair Isaac Corporation, developer of the FICO credit score rolls out a new model in the spring called FICO 08.

FICO 08 will supposedly go easier on consumers who make the occasional slip while coming down harder on those with multiple offenses. I have seen clients scores drop 30 points or more just for missing one minimum credit card payment. That will be changing. Isolated lates will not have as much of an impact if there are other payments being made on time. Additionally, a pattern of late payments will negatively impact your credit more than in the past.

Scores will still take into account the same factors as the old version such as timely payment history, length of credit history, amount of debt, ratio of debt to available credit, type of debt (credit cards good, finance companies not so good), and any excessive amount of recent new credit. There will also be a premium placed on the debt mix; that is a consumer with revolving and installment credit will fare better than one with nothing but (revolving) credit card debt. I hope this credit information has been helpful. To learn more, feel free to contact me.

Dean Graber:  
(516) 527- 9549  
[deanwgraber@aol.com](mailto:deanwgraber@aol.com)