

What The New FICO 8 Score Means To You

Increasing numbers of lenders are turning to the FICO 8 score released in 2009.

The new system offers 15% greater accuracy in predicting repayment. It is gaining the most use in the mortgage and large limit credit sectors.

It was quickly adopted as an industry standard among home loan lenders. Even though it is not the official name and is used for other credit, it is often called the FICO 8 Mortgage Score.

What Is the New Fico 8 Score?

The FICO 8 Mortgage Score is a refined version of the old FICO, or regular credit score. By improving the model, it permits a better prediction rate for repaying loans. This increases the security and amount of credit that a lender can offer.

It uses the old FICO score range of 300 to 850. The main adjustment focuses on how a few factors affect the score.

"Piggybacking"

Many people were using a scheme to artificially boost their credit rating. A friend or relative with a high credit score would add the person with a low score as an authorized user to their credit card.

This boosted the lower score by "piggybacking" it to a well-established, creditworthy account. The new FICO 8 includes ways to distinguish between piggybacking, married couples with different names, and domestic partners to avoid this artificial manipulation of the system.

End Of High Risk Credit Inflation

Another system manipulation targeted by the FICO 8 Mortgage Score is "credit inflation".

Under the old scoring system, your score would increase with your credit limits. Consumers could acquire multiple cards with expanding limits over time to artificially boost their score. Many of these people maximized their credit lines, creating huge risks.

To balance out the risk, FICO 8 takes into account how much of the credit available to a customer is being used. Large amounts of credit with a low percentage used will provide a big boost to credit scores.

Some critics argue that this worsens credit inflation. Industry experts counter that a person with a lot of credit and very little of it used is most likely to repay debts.

On the other hand, someone with "maxed out" credit cards and a second mortgage is very likely to default, even though they have a large amount of credit.

Improved Payment Histories And Targeting

One of the most important changes is how the FICO 8 analyzes credit history. Late payments matter a bit less, compared to an overall history of repayment.

Under the old system, late payments could seriously lower credit scores. Under FICO 8, the main focus is the rate of repayment. After all, someone who often pays late but always pays completely is much less of a risk than a person that is often timely but defaults on debts.

A related aspect is better targeting of consumers. A person with a poor history but a couple of recent years with better income and payments can actually carry relatively low risk. On the other hand, someone with a good history but overextended credit may be a big risk.

How Does This Affect Foreclosures And Mortgages?

Foreclosure typically causes a credit score drop of around 150 points. This is not caused by the mortgage default alone. Statistically, those experiencing foreclosure will also default on most or all of their other debts as well. This is where the FICO 8 changes can benefit those losing their home to foreclosure.

Due to the way the new system calculates scores, it is more important than ever to stay current on other debts when facing foreclosure.

Under the old system, a foreclosure could cause serious negative effects for several years. FICO 8 will allow a recovery of credit score within a few years.

To avoid further negative reporting, pay your other debts in a timely fashion and make payment arrangements if you cannot meet your current obligations.

Remember, the FICO 8 Mortgage Score takes into account total payment history.

If you show that you are not like the average borrower and the foreclosure was an isolated default, the system will raise your credit score.