Learn how to bat $1,000 on the credit scorecard

money

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You have just moved to the Detroit area and you want to get a credit card at a local bank. How do you go about it?

You apply for a car loan at a financial institution and you get turned down. You apply at another institution and receive it without a hitch. Do you know why?

You have a good job and decide to borrow money to take a vacation. Your application is rejected. You can't understand it because you know you have a good credit rating. Do you know why you were rejected?

THE ABOVE situations fall under the umbrella of understanding that creditors maintain their own standards for granting credit. And rising out of this is a relatively new area called credit scoring.

Credit scoring is a statistical method used by creditors to help them determine your credit worthiness. It came about as one way to reduce discrimination in the lending process.

Previously, loan officers made their credit decisions after a personal interview with the applicant. Allegations were made that there was no uniform handling of credit applications and that loan officers personal biases often were reflected in their decision making.

Lenders believed there had to be a better method that would equalize the credit granting process. Out of that desire, credit scoring was born.

The idea behind credit scoring is that there are solid, tested indicators of an individual's ability to handle credit.

SOME OF these are job stability (length of time on current job, length of time on previous job), total net income, residence (length of time at present address; previous length of residence; renting; or, homeowner,) current indebtedness (a lender will refuse you credit should he view your current credit load as being at your maximum ability to pay back) and your credit bureau report, which reflects your previous ability ot pay back.

The statistical method involves taking a random sampling of a lender's total experienced with a particular kind of loan such as car loans or home improvement loans.

All the information from these applications is then analyzed in relationship to whether the borrowers had good or bad records of paying their loans on time. Out of this analysis came the credit scoring or point system.

All characteristics of the individuals — both good and bad — are given a point factor. In credit scoring, an individual is awarded points for such items as length of employment.

No one factor is used to determine your score, but all of the information you put on the applicaton is weighed and becomes part of your total score.

It is important when filling out an application that all questions are answered because even a negative piece of information may get you a higher score than if you give no answer at all.

IT IS also important to remember that not all lenders will have experienced the same things with their respective kinds of loans, like auto, so the data they use to develop their statistical method for their credit scoring will be different from another lender's.

This is one reason why consumers who are turned down for credit in one place may find they can get credit at another.

There are some problems with credit scoring because the lender is faced with a decision on what to do about consumers who are borderline risk. They fall between those who score well and those who obviously should be rejected.

This is where the computer again analyzes the credit experience the lender has had with a particular kind of loan and again comes up with data indicating those who probably will be acceptable even though their original credit score was not in the approved range.

Credit scoring is relatively new and is usually in operation in large institutions, where there is sufficient data to develop a statistical model. The system is by no means perfect, but it is a giant step forward by lenders to reduce discrimination in the credit process.

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