August 4, 2008

Sandra F. Braunstein
Director, Division of Consumer and Community Affairs
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Unfair or Deceptive Acts or Practices Proposal - Docket Number R-1314

Dear Ms. Braunstine;

This is in response to your telephone conversation today with Mr. Frank Farrar. He asked that I send you a copy of my response letter to the Regulation AA – Unfair and Deceptive Acts or Practices Proposal, which is enclosed.

We appreciate the opportunity to respond to this proposal, Ms. Braunstine, and sincerely hope that the Board of Governors considers the benefits and impacts associated with the proposal before issuing its final decision.

Sincerely,

Sherry Tunender
Vice-President / Compliance Officer
First National Credit Card (a division of First National Bank)

Enclosure

July 16, 2008

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Unfair or Deceptive Acts or Practices Proposal - Docket Number R-1314

Dear Board of Governors;

From a consumer perspective, virtually all Americans want at least one general purpose credit card for the safety it offers compared to carrying cash, for the billing dispute rights, and for the convenience to make purchases over the internet, by telephone or in person. But we cannot forget that a credit card is a privilege and not a right. Managing a bank's credit card portfolio is a minefield riddled with risks that must be mitigated in order for the bank to stay in business.

The Unfair or Deceptive Acts or Practices Proposal ("Proposal") makes the general assumption that offering a high fee, low initial credit limit product is unfair. We firmly disagree and the following explains our position.

Availability of Credit Reduced
To understand the general US population and its credit characteristics, 20% have a credit score below 620 per Fair Isaac Corporation, the creators of the FICO credit score, as stated in their "Understanding Your Credit Score" publication located at www.myfico.com and attached for your reference. This FICO range is where credit challenged consumers are typically offered higher fees / lower credit limit products. These products provide these consumers access to credit cards when they do not qualify for prime accounts while the fees mitigate the higher risk of default. If banks are unable to price the products for risk, they WILL offer credit card products that conform to the new rules but will offer these products to less risky consumers. We have already started testing products that conform to the proposed rules and can confirm that we are not sending these solicitations to the same consumers as the higher fee products but are sending them to lower risk individuals. The practice of pricing a product for risk is not unfair; unfair would be passing rules that, by way of limiting the fee structure, eliminates the opportunity of approximately 20% of the population from holding a credit card product.

Courts have Ruled that Higher Fee / Lower Limit Products have Value
There was an opportunistic law firm who, following the FACTA amendments that defined "Clear and Conspicuous" for Prescreen Opt-Out Notices, filed 100+ lawsuits against a multitude of lenders claiming notices that did not meet the new rules that were produced before the effective date of the new rules invalidated the "firm offers of credit". Such a lawsuit was filed against First National Bank (Ft. Pierre, SD) by a consumer who was solicited *but never applied* for a credit card product. After the initial legal filing, the Plaintiff filed a request to amend her complaint alleging that a product with $175 in initial fees with a $250 credit limit was a "sham offer". The judge in the United States District Court for the Northern District of Illinois Eastern Division ruled in favor of the bank stating "Although the initial amount of credit was small, a continuing credit line was available by merely accepting the offer" and "the court finds that the instant offer is a firm offer of credit and not a sham advertisement…" The Plaintiff appealed. The appellate court ruled in a 2-1 split decision stating "We recognize that First National's credit solicitation requires card holders to pay a significant amount of money in fees, which are quite high in relation to the credit line offered. We realize that this is not an attractive deal for the great majority of consumers. However, the card is not without value. If the credit card holder paid off the card each month, the card would allow him or her to make almost $3000 in purchases in one year. The credit card holder would also build up a credit rating, which is useful to individuals who are trying to establish credit for the first time or to reestablish good credit. Additionally, First National's offer was not a "guise for solicitation," or "a sham offer used to pitch a product rather than extend credit," The only product First National offered was a credit line. Taking these factors together, we find that the district court did not error by denying Perry's request to amend her complaint to add her claim under 15 U.S.C. § 1681b(c)(1)(B)(i)." The court went on to state "The fact that First National may earn a significant portion of its revenues from fees charged for credit cards like those offered to Perry does not make its credit solicitation a sham—the focus of our inquiry is whether the credit solicitation offers value to the consumer, and in this case we have determined that it does. In reaching this

conclusion, we have considered our dissenting colleague's unease that First National's credit offer will be accepted only by those consumers who do not fully understand the offer's terms or by those who cannot obtain credit on more favorable terms, such as individuals with very poor credit histories or who are emerging from bankruptcy. However, as the dissent acknowledges, the FCRA is designed to protect the privacy of consumers' credit histories, not to prevent consumers from making unwise financial choices even when they are provided with all the material terms necessary to make informed decisions. Additionally, we are concerned that accepting our colleague's position may have the unintended consequence of precluding consumers with past financial problems from obtaining credit at all, and thus make it even more difficult for them to receive loans and mortgages. We are understanding of the plight of consumers who must choose between having no credit and having credit on less than favorable terms, but we also recognize that a company like First National will not offer credit to consumers on terms that will not allow it to earn a return."

Using the judge's example, a consumer would have paid $241 in fees for $3,000 of credit or 8% of the credit utilized in the first year. Therefore, the value of a higher fee / lower limit account is based on how the customer uses the card, not on how the account is priced on the first statement. We have seen this case misquoted and taken out of perspective in a consumer advocacy piece that failed to even recognize that three (3) of the four (4) judges who evaluated this case felt that the credit product has value.

Benefits of Higher Fee / Lower Limit Account

Besides the traditional benefits of any credit card, obtaining a Higher Fee / Lower Credit Limit account provides the customer with an opportunity to improve their credit score. Evidence to document this is provided by Fair Isaac Corporation in their "Understanding Your Credit Score" under Tips for Raising Your Score where it states:

- "Re-establish your credit history if you have had problems: Opening new accounts responsibly and paying them off on time will raise your score in the long term" and
- "Have credit cards but manage them responsibly: In general, having credit cards and installment loans (and making timely payments) will raise your score. People with no credit cards, for example, tend to be higher risk than people who have managed credit cards responsibly."

If financial institutions are limited in their ability to price for risk thereby eliminating lending to 20% of the population who have the lowest FICO scores, these consumers' ability to increase their credit score will be significantly handicapped. Since FICO scores are used for everything from setting car insurance rates to approving cell phone applications to granting credit, the impact to consumers trapped with low FICO scores will be paying too much or not qualifying for other products. According to myfico.com, the average auto loan interest rate is 4% higher for a FICO of 610 than for 630. That 4% difference on a $10,000 car for 5 years is $1,212.72. When comparing this to $175 in up-front fees on the typical higher fee / lower limit credit card, the benefit to the consumer of obtaining an unsecured credit card and maintaining it to improve their credit score is obvious.

Holistic Approach Required to Determine Unfair or Deceptive

As the Agencies have stated on numerous occasions, determining if a product is unfair or deceptive requires a subjective review of the entire product. Most issuers of Higher Fee / Lower Limit products make portfolio management decisions with integrity taking into consideration their customer base. Some of the portfolio management decisions include but are not limited to:

- Choosing not to utilize punitive pricing knowing their customers have had credit problems in the past and may be more likely to experience future missteps.
- Never utilizing two-cycle average daily balance knowing these are complex, difficult to understand and not appropriate for their customer base.
- Always setting payment due dates 23 to 25 days from the statement print date.
- Providing extra cushion days between payment due date and next statement date to not impose a Late Fee.
- Charging Late Fees and Over Limit Fees that are typically 25% lower than prime accounts ($29 versus $39)
- Not authorizing any charge that exceeds the credit limit to help customers avoid Over Limit Fees.
- Not using "teaser rates" or multiple Annual Percentage Rates.
- Allowing a customer to change their mind after receiving the account and crediting fees and credit bureau reporting fulfilling the intent to never force the account on anyone.

Improved Disclosures Provide Value and Benefit

We firmly believe it is incredibly important that customers understand the credit products offered so they can make their own decisions on whether products have value to them. While most banks offering these products have already implemented additional disclosures beyond what is required by regulation to facilitate consumer understanding, we applaud and support the Federal Reserve Board's June 2007 proposal to revise Credit Card Application and Solicitation Disclosures in order to make these types of disclosures standardized. Improving disclosures will benefit consumers by locating details regarding available credit, which is not currently required under any regulation, in a standardized location. For example, Model Form G-10(c) Applications and Solicitations Sample (Credit Cards) required the "NOTICE: Some of these set-up and maintenance fees will be assessed before you begin using your card and will reduce the amount of credit you initially have available. For example, if you are assigned the minimum credit limit of $250, your initial available credit will be only $68 (or $53 if you choose to have an additional card)." Rather than limit products that provide value to specific segments of the population, it makes more sense to provide usable disclosures so customers understand what they are buying and can decide whether the product has value to them.

Mitigating Risk Comparison
When a consumer has multiple car accidents, they know their insurance premiums are likely to go up and, while no one is pleased with a rate increase, it is generally understood that a consumer with car accidents is higher risk than one without. The alternative to not paying higher rates is driving without insurance and that is not a reasonable, viable alternative. Credit challenged consumers have had "credit accidents" and financial institutions who lend to these individuals need to charge higher fees to offset the higher risk. Eliminating access to credit is no more reasonable or viable than driving without insurance.

Summarizing Unfair and Deceptive Applicability
As specifically stated in the Proposal, an act or practice cannot be declared unfair unless "(1) It causes or is likely to cause substantial injury to consumers; (2) the injury is not reasonably avoidable by consumers themselves; and (3) the injury is not outweighed by countervailing benefits to consumers or competition." Since the definition of "substantial injury" is any monetary expense, any product that a customer pays for could meet the first tier. However, if the disclosures about the product are clear, the customer can reasonably avoid it thereby failing the second (2^{nd}) requirement. Taking into consideration the benefits of an open-ended credit card with all of the values provided as previously discussed as well as the potential FICO improvements (depending on how the customer maintains the account) proves beyond a reasonable doubt that the benefits outweigh the expenses to specific segments of the population thereby failing the third (3^{rd}) test. Finally, Higher Fees / Lower Limit products are PRODUCTS, not acts or practices. All of the other considerations in the Proposal target specific acts or practices that may be imbedded in products but do not target the products themselves. As previously indicated, rules that prohibit products priced for risk will result in a significant portion of the population not having access to credit card products.

We appreciate the opportunity to respond to this Proposal. We trust that the Federal Reserve Board will define regulations protecting the rights of consumers to make their own decisions about the value of credit products based on their situation.

Sincerely,

Sherry Tunender
Vice-President / Compliance Officer
First National Credit Card (a division of First National Bank)

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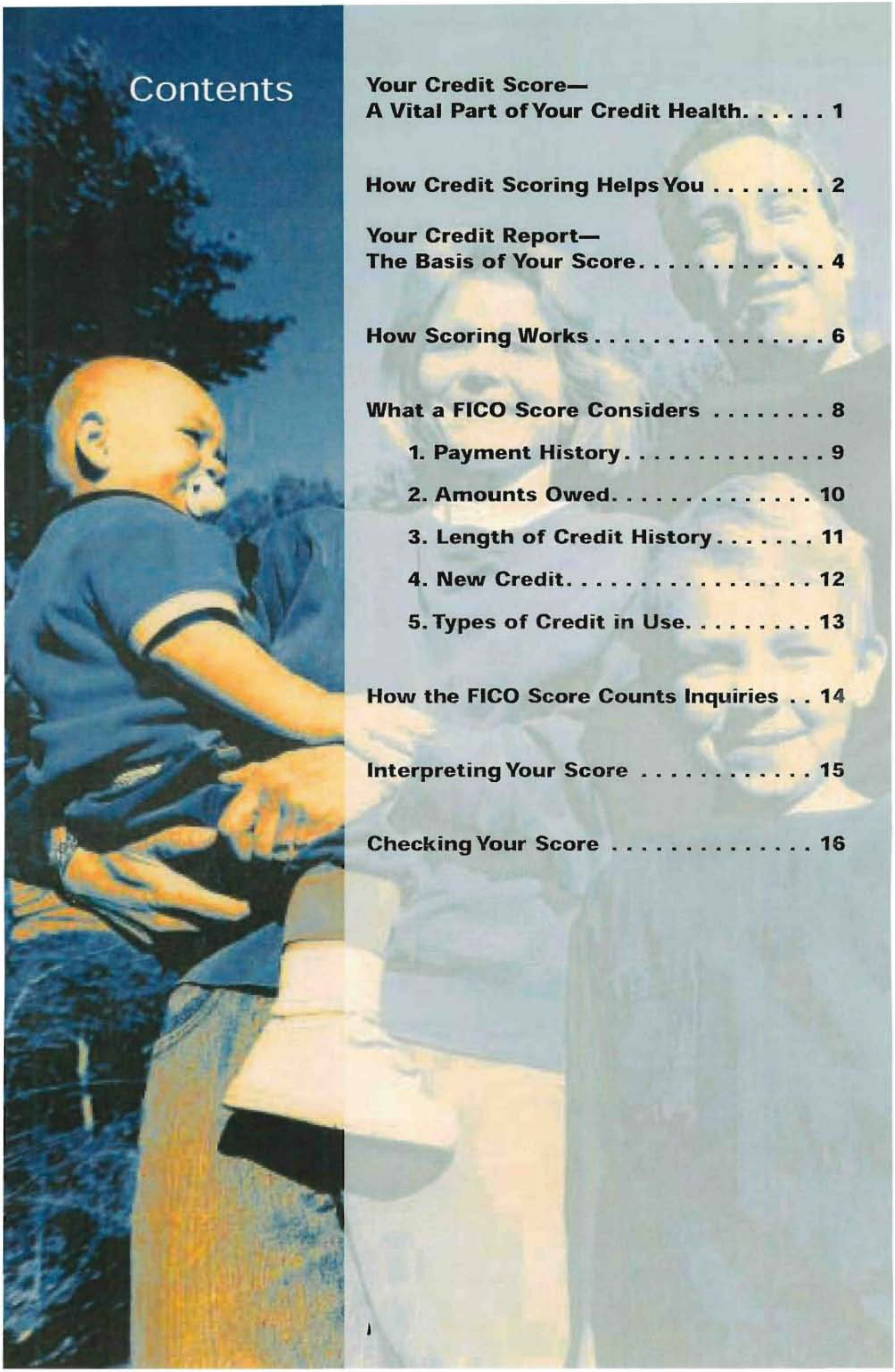

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Your Credit Score—A Vital Part of Your Credit Health

When you're applying for credit—whether it's a credit card, a car loan, a personal loan or a mortgage—lenders will want to know your credit risk level. To understand your credit risk, most lenders will look at your credit score.

Your credit score influences the credit that's available to you, and the terms (interest rate, etc.) that lenders offer you. It's a vital part of your credit health.

Understanding credit scoring can help you manage your credit health. By knowing how your credit risk is evaluated, you can take actions that will lower your credit risk—and thus raise your score—over time. A better score means better financial options for you.

WHAT IS A CREDIT SCORE?

A credit score is a number lenders use to help them decide: "If I give this person a loan or credit card, how likely is it that I will get paid back on time?" A score is a snapshot of your credit risk at a particular point in time.

The most widely used credit scores are FICO® scores. Lenders use FICO scores to make billions of credit decisions every year. Fair Isaac develops FICO scores based solely on information in consumer credit reports maintained at the credit reporting agencies.

This booklet can help you improve your credit health by helping you understand how credit scoring works.

More information on credit scoring can be found online at *www.myfico.com.*

What is your credit score?

Once you know how scoring works, you may want to take the next step by finding out what your FICO score is today, and what steps you could take to improve it.

You can get your FICO score through Fair Isaac's myFICO℠ service. When you order your score through the myFICO service, you also get the credit report it's based on, and tips on how to improve your score specifically.

You can check your FICO score online at *www.myfico.com.* For information on services available through the myFICO service, see page 16.

Does my score alone determine whether I get credit?

No. Most lenders use a number of facts to make credit decisions, including your FICO score. Lenders look at information such as the amount of debt you can reasonably handle given your income, your employment history, and your credit history.

Based on their perception of this information, as well as their specific underwriting policies, lenders may extend credit to you although your score is low, or decline your request for credit although your score is high.

How Credit Scoring Helps You

Credit scores give lenders a fast, objective measurement of your credit risk. Before the use of scoring, the credit granting process could be slow, inconsistent and unfairly biased.

Credit scores—especially FICO scores, the most widely used credit bureau scores—have made big improvements in the credit process. Because of credit scores:

- **People can get loans faster.** Scores can be delivered almost instantaneously, helping lenders speed up loan approvals. Today many credit decisions can be made within minutes—or online, within seconds. Even a mortgage application can be approved in hours instead of weeks for borrowers who score above a lender's "score cutoff." Scoring also allows retail stores, Internet sites and other lenders to make "instant credit" decisions.

- **Credit decisions are fairer.** Using credit scoring, lenders can focus only on the facts related to credit risk, rather than their personal feelings. Factors like your gender, race, religion, nationality and marital status are not considered by credit scoring.

- **Older credit problems count for less.** If you have had poor credit performance in the past, credit scoring doesn't let that haunt you forever. Past credit problems fade as time passes and as recent good payment patterns show up on your credit report. And credit scores weigh any credit problems against the positive information that says you're managing your credit well.

More credit is available. Lenders who use credit scoring can approve more loans, because credit scoring gives them more precise information on which to base credit decisions. It allows lenders to identify individuals who are likely to perform well in the future, even though their credit report shows past problems. Even people whose scores are lower than a lender's cutoff for "automatic approval" benefit from scoring. Many lenders offer a choice of credit products geared to different risk levels. Most have their own separate guidelines, so if you are turned down by one lender, another may approve your loan. The use of credit scores gives lenders the confidence to offer credit to more people, since they have a better understanding of the risk they are taking on.

Credit rates are lower overall. With more credit available, the cost of credit for borrowers decreases. Automated credit processes, including credit scoring, make the credit granting process more efficient and less costly for lenders, who in turn have passed savings on to their customers. And by controlling credit losses using scoring, lenders can make rates lower overall. Mortgage rates are lower in the United States than in Europe, for example, in part because of the information —including credit scores—available to lenders here.

How fast does my score change?

Your score can change whenever your credit report changes. But your score probably won't change a lot from one month to the next. In a given three-month time period, only about one in four people has a 20-point change in their credit score.

While a bankruptcy or late payments can lower your score fast, improving your score takes time. That's why it's a good idea to check your score 6–12 months before applying for a big loan, so you have time to take action if needed. If you are actively working to improve your score, you'd want to check it quarterly or even monthly to review changes.

How can mistakes get on my credit report?

If your credit report contains errors, it is often because the report is incomplete, or contains information about someone else. This typically happens because:

- **You applied for credit under different names** (Robert Jones, Bob Jones, etc.).
- **Someone made a clerical error in reading or entering name or address information from a hand-written application.**
- **You gave an inaccurate Social Security number, or the number was misread by the lender.**
- **Loan or credit card payments were inadvertently applied to the wrong account.**

Your Credit Report—The Basis of Your Score

Credit reporting agencies maintain files on millions of borrowers. Lenders making credit decisions buy credit reports on their prospects, applicants and customers from the credit reporting agencies.

Your report details your credit history as it has been reported to the credit reporting agency by lenders who have extended credit to you. Your credit report lists what types of credit you use, the length of time your accounts have been open, and whether you've paid your bills on time. It tells lenders how much credit you've used and whether you're seeking new sources of credit. It gives lenders a broader view of your credit history than do other data sources, such as a bank's own customer data.

Your credit report reveals many aspects of your borrowing activities. All pieces of information should be considered in relationship to other pieces of information. The ability to quickly, fairly and consistently consider all this information is what makes credit scoring so useful.

CHECK YOUR CREDIT REPORT

You should review your credit report from each credit reporting agency at least once a year and especially before making a large purchase, like a house or car. To request a copy, contact the credit reporting agencies directly:

- *Equifax: (800) 685-1111, www.equifax.com*
- *Experian (formerly TRW): (888) 397-3742, www.experian.com*
- *TransUnion: (800) 888-4213, www.transunion.com*

If you find an error, the credit reporting agency must investigate and respond to you within 30 days. If you are in the process of applying for a loan, immediately notify your lender of any incorrect information in your report.

WHAT'S IN YOUR CREDIT REPORT?

Although each credit reporting agency formats and reports this information differently, all credit reports contain basically the same categories of information.

CREDIT BUREAU REPORT

IDENTIFYING INFORMATION

I. Wishfor Credit	12 Lost Lane	Sam's Gas & Oil
805 Main St.	Somewhere, USA 66666	Attendant
Anytown, America 77777	Date of Birth: 1-25-50	1980
	SS# 888-88-8888	

TRADE LINE INFORMATION

INDUSTRY	DATE REPORTED	DATE OPENED	HIGH CREDIT	BALANCE	CURRENT RATING	HISTORICAL DELINQUENCY
Bankcard	7-02	3-88	$5,000	$0	Current	120+, 6 yrs ago
Auto loan	7-02	7-95	8,000	1,500	Current	
Retail	5-02	6-91	1,000	0	30 days	
Retail	6-02	11-98	750	300	Current	
Pers finance	5-02	6-96	2,000	1,400	Current	

INQUIRIES THAT YOU INITIATE

DATE	INDUSTRY	DATE	INDUSTRY	DATE	INDUSTRY
7-01-02	Bank	6-01-02	Auto finance	10-25-01	Bank
6-15-01	Retail	11-01-01	Retail		

OTHER INQUIRIES

DATE	INDUSTRY	DATE	INDUSTRY	DATE	INDUSTRY
6-15-02	Oil company	2-07-02	Bank	3-23-01	Bank

PUBLIC RECORD / COLLECTION ITEMS

7-01 COLLECTION $500

9-00 COLLECTION $750

9-99 JUDGMENT $1000 Satisfied 3-00

IDENTIFYING INFORMATION. Your name, address, Social Security number, date of birth and employment information are used to identify you. These factors are not used in credit bureau scoring. Updates to this information come from information you supply to lenders.

TRADE LINES. These are your credit accounts. Lenders report on each account you have established with them. They report the type of account (bankcard, auto loan, mortgage, etc), the date you opened the account, your credit limit or loan amount, the account balance and your payment history.

INQUIRIES. When you apply for a loan, you authorize your lender to ask for a copy of your credit report. This is how inquiries appear on your credit report. The inquiries section contains a list of everyone who accessed your credit report within the last two years. The report you see lists both "voluntary" inquiries, spurred by your own requests for credit, and "involuntary" inquires, such as when lenders order your report so as to make you a pre-approved credit offer in the mail. See page 14 for more information.

PUBLIC RECORD AND COLLECTION ITEMS. Credit reporting agencies also collect public record information from state and county courts, and information on overdue debt from collection agencies. Public record information includes bankruptcies, foreclosures, suits, wage attachments, liens and judgments.

Is credit scoring unfair to minorities?

No. Scoring does not consider your gender, race, nationality or marital status. In fact, the Equal Credit Opportunity Act prohibits lenders from considering this type of information when issuing credit.

Independent research has shown that credit scoring is not unfair to minorities or people with little credit history. Scoring has proven to be an accurate and consistent measure of repayment for all people who have some credit history. In other words, at a given score, non-minority and minority applicants are equally likely to pay as agreed.

How Scoring Works

Along with the credit report, lenders can also buy a credit score based on the information in the report. That score is calculated by a mathematical equation that evaluates many types of information from your credit report at that agency. By comparing this information to the patterns in hundreds of thousands of past credit reports, the score identifies your level of future credit risk.

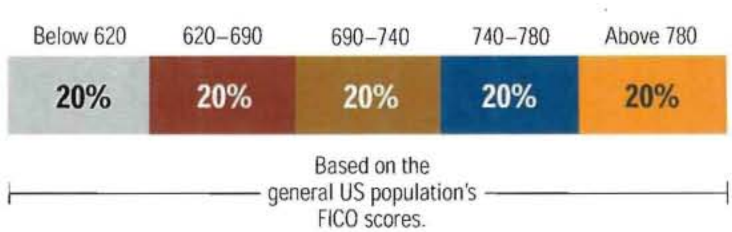
In order for a FICO score to be calculated on your credit report, the report must contain at least one account which has been open for six months or greater. In addition, the report must contain at least one account that has been updated in the past six months. This ensures that there is enough information—and enough recent information—in your report on which to base a score.

ABOUT FICO SCORES

Credit bureau scores are often called "FICO scores" because most credit bureau scores used in the US and Canada are produced from software developed by Fair Isaac Corporation (FICO). FICO scores are provided to lenders by the three major credit reporting agencies: Equifax, Experian and TransUnion.

FICO scores provide the best guide to future risk based solely on credit report data. The higher the score, the lower the risk. But no score says whether a specific individual will be a "good" or "bad" customer. And while many lenders use FICO scores to help them make lending decisions, each lender has its own strategy, including the level of risk it finds acceptable for a given credit product. There is no single "cutoff score" used by all lenders.

How Do People Score?



MORE THAN ONE FICO SCORE

In general, when people talk about "your score," they're talking about your current FICO score. But in fact there are three different FICO scores developed by Fair Isaac—one at each of the three main US credit reporting agencies. And these scores have different names.

Credit Reporting Agency	FICO Score Name
Equifax & Equifax Canada	BEACON®
Experian	Experian/Fair Isaac Risk Model
TransUnion & TransUnion Canada	EMPIRICA®

The FICO scores from all three credit reporting agencies are widely used by lenders. The FICO score from each credit reporting agency considers only the data in your credit report at that agency.

Fair Isaac develops all three FICO scores using the same methods and rigorous testing. These FICO scores provide the most accurate picture of credit risk possible using credit report data.

WILL YOUR SCORES BE DIFFERENT?

FICO scores range from about 300 to 850. Fair Isaac makes the scores as consistent as possible between the three credit reporting agencies. If your information were exactly identical at all three credit reporting agencies, your scores from all three would be within a few points of each other.

But here's why your FICO scores may in fact be different at the three credit reporting agencies. The way lenders and other businesses report information to the credit reporting agencies sometimes results in different information being in your credit report at the three agencies. The agencies may also report the same information in different ways. Even small differences in the information at the three credit reporting agencies can affect your scores.

Since lenders may review your score and credit report from any of the three credit reporting agencies, it's a good idea to check your credit report from all three and make sure they're all right.

Are FICO scores the only credit risk scores?

No. While FICO scores are the most commonly used credit risk scores in the US, lenders may use other scores to evaluate your credit risk. These include:

- **Application risk scores.** Many lenders use scoring systems that include the FICO score but also consider information from your credit application.
- **Customer risk scores.** A lender may use these scores to make credit decisions on its current customers. Also called "behavior scores," these scores generally consider the FICO score along with information on how you have paid that lender in the past.
- **Other credit bureau scores.** These scores may evaluate your credit report differently than FICO scores, and in some cases a higher score may mean more risk, not less risk as with FICO scores.

When purchasing a credit score for yourself, make sure to get the FICO score, as this is the score most lenders will look at in making credit decisions on you.

Getting a better score

The next few pages give some tips for getting a better FICO score. It's important to note that raising your score is a bit like getting in shape: It takes time and there is no quick fix. In fact, quick-fix efforts can backfire. The best advice is to manage credit responsibly over time.

For information on how to monitor your FICO score's progress, see page 16.

What a FICO Score Considers

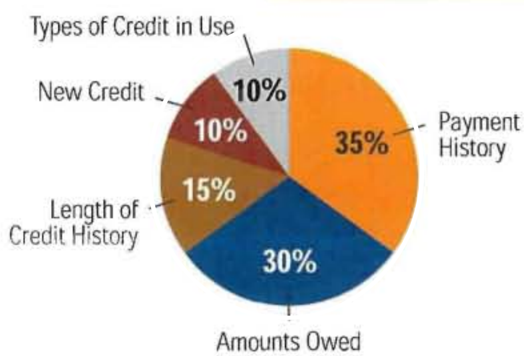
Listed on the next few pages are the five main categories of information that FICO scores evaluate, along with their general level of importance. Within these categories is a complete list of the information that goes into a FICO score. Please note that:

- **A score takes into consideration all these categories of information, not just one or two.** No one piece of information or factor alone will determine your score.

- **The importance of any factor depends on the overall information in your credit report.** For some people, a given factor may be more important than for someone else with a different credit history. In addition, as the information in your credit report changes, so does the importance of any factor in determining your score. Thus, it's impossible to say exactly how important any single factor is in determining your score—even the levels of importance shown here are for the general population, and will be different for different credit profiles.

- **Your FICO score only looks at information in your credit report.** Lenders often look at other things when making a credit decision, however, including your income, how long you have worked at your present job and the kind of credit you are requesting.

- **Your score considers both positive and negative information in your credit report.** Late payments will lower your score, but establishing or re-establishing a good track record of making payments on time will raise your score.



How a Score Breaks Down

These percentages are based on the importance of the five categories for the general population. For particular groups—for example, people who have not been using credit long—the importance of these categories may be different.

1. Payment History

What is your track record?

Approximately 35% of your score is based on this category.

The first thing any lender would want to know is whether you have paid past credit accounts on time. This is also one of the most important factors in a credit score.

Late payments are not an automatic "score-killer." An overall good credit picture can outweigh one or two instances of, say, late credit card payments. But having *no* late payments in your credit report doesn't mean you will get a "perfect score." Some 60%–65% of credit reports show no late payments at all. Your payment history is just one piece of information used in calculating your score.

Your score takes into account:

■ **Payment information on many types of accounts.** These will include credit cards (such as Visa, MasterCard, American Express and Discover), retail accounts (credit from stores where you do business, such as department store credit cards), installment loans (loans where you make regular payments, such as car loans), finance company accounts and mortgage loans.

■ **Public record and collection items—reports of events such as bankruptcies, foreclosures, suits, wage attachments, liens and judgments.** These are considered quite serious, although older items and items with small amounts will count less than more recent items or those with larger amounts. Bankruptcies will stay on your credit report for 7–10 years, depending on the type.

■ **Details on late or missed payments ("delinquencies") and public record and collection items.** The score considers how late they were, how much was owed, how recently they occurred and how many there are. A 60-day late payment is not as risky as a 90-day late payment, in and of itself. But recency and frequency count too. A 60-day late payment made just a month ago will affect a score more than a 90-day late payment from five years ago.

■ **How many accounts show no late payments.** A good track record on most of your credit accounts will increase your credit score.

TIPS for Raising Your Score

- **Pay your bills on time.** Delinquent payments and collections can have a major negative impact on your score.
- **If you have missed payments, get current and stay current.** The longer you pay your bills on time, the better your score.
- **Be aware that paying off a collection account, or closing an account on which you previously missed a payment, will not remove it from your credit report.** The score will still consider this information, because it reflects your past credit pattern.
- **If you are having trouble making ends meet, contact your creditors or see a legitimate credit counselor.** This won't improve your score immediately, but if you can begin to manage your credit and pay on time, your score will get better over time. And you won't lose points for seeing a credit counselor.

TIPS for Raising Your Score

- **Keep balances low on credit cards and other "revolving credit."** High outstanding debt can affect a score.
- **Pay off debt rather than moving it around.** The most effective way to improve your score in this area is by paying down your revolving credit. In fact, owing the same amount but having fewer open accounts may lower your score.
- **Don't close unused credit cards as a short-term strategy to raise your score.**
- **Don't open a number of new credit cards that you don't need, just to increase your available credit.** This approach could backfire and actually lower your score.

2. Amounts Owed

How much is too much?

Approximately 30% of your score is based on this category.

Having credit accounts and owing money on them does not mean you are a high-risk borrower with a low score. However, owing a great deal of money on many accounts can indicate that a person is overextended, and is more likely to make some payments late or not at all. Part of the science of scoring is determining how much is *too* much for a given credit profile.

Your score takes into account:

- **The amount owed on all accounts.** Note that even if you pay off your credit cards in full every month, your credit report may show a balance on those cards. The total balance on your last statement is generally the amount that will show in your credit report.
- **The amount owed on all accounts, and on different types of accounts.** In addition to the overall amount you owe, the score considers the amount you owe on specific types of accounts, such as credit cards and installment loans.
- **Whether you are showing a balance on certain types of accounts.** In some cases, having a very small balance without missing a payment shows that you have managed credit responsibly, and may be slightly better than carrying no balance at all. On the other hand, closing unused credit accounts that show zero balances and that are in good standing will not raise your score.
- **How many accounts have balances.** A large number can indicate higher risk of over-extension.
- **How much of the total credit line is being used on credit cards and other "revolving credit" accounts.** Someone closer to "maxing out" on many credit cards may have trouble making payments in the future.
- **How much of installment loan accounts is still owed, compared with the original loan amounts.** For example, if you borrowed $10,000 to buy a car and you have paid back $2,000, you owe (with interest) more than 80% of the original loan. Paying down installment loans is a good sign that you are able and willing to manage and repay debt.

3. Length of Credit History

How established is yours?

Approximately 15% of your score is based on this category.

In general, a longer credit history will increase your score. However, even people who have not been using credit long may get high scores, depending on how the rest of the credit report looks.

Your score takes into account:

- **How long your credit accounts have been established, in general.** The score considers both the age of your oldest account and an average age of all your accounts.
- **How long specific credit accounts have been established.**
- **How long it has been since you used certain accounts.**

TIPS for Raising Your Score

- **If you have been managing credit for a short time, don't open a lot of new accounts too rapidly.** New accounts will lower your average account age, which will have a larger effect on your score if you don't have a lot of other credit information. Also, rapid account buildup can look risky if you are a new credit user.

What FICO scores ignore

FICO scores consider a wide range of information on your credit report, as shown on pages 8–13. However, they do *not* consider:

- **Your race, color, religion, national origin, sex and marital status.** US law prohibits credit scoring from considering these facts, as well as any receipt of public assistance, or the exercise of any consumer right under the Consumer Credit Protection Act.
- **Your age.** Other types of scores may consider your age, but FICO scores don't.
- **Your salary, occupation, title, employer, date employed or employment history.** Lenders may consider this information, however.
- **Where you live.**
- **Any interest rate being charged on a particular credit card or other account.**
- **Any items reported as child/family support obligations or rental agreements.**
- **Certain types of inquiries (requests for your credit report or score).** The score does *not* count any requests you make, any requests from employers, and any requests lenders make without your knowledge. For details, see page 14.
- **Any information not found in your credit report.**
- **Any information that is not *proven* to be predictive of future credit performance.**

TIPS for Raising Your Score

- **Do your rate shopping for a given auto or mortgage loan within a focused period of time.** FICO scores distinguish between a search for a single loan and a search for many new credit lines, in part by the length of time over which inquiries occur.
- **Re-establish your credit history if you have had problems.** Opening new accounts responsibly and paying them off on time will raise your score in the long term.
- **Note that it's OK to request and check your own credit report and your own FICO score.** This won't affect your score, as long as you order your credit report directly from the credit reporting agency or through an organization authorized to provide credit reports to consumers, like the myFICO service. For more information, see page 14.

4. New Credit

Are you taking on more debt?

Approximately 10% of your score is based on this category.

People tend to have more credit today and to shop for credit—via the Internet and other channels—more frequently than ever. Fair Isaac scores reflect this fact. However, research shows that opening several credit accounts in a short period of time does represent greater risk—especially for people who do not have a long-established credit history.

Multiple credit requests also represent greater credit risk. However, FICO scores do a good job of distinguishing between a search for *many* new credit accounts and rate shopping for *one* new account.

Your score takes into account:

- **How many new accounts you have.** The score looks at how many new accounts there are by type of account (for example, how many newly opened credit cards you have). It also may look at how many of your accounts are new accounts.
- **How long it has been since you opened a new account.** Again, the score looks at this by type of account.
- **How many recent requests for credit you have made, as indicated by inquiries to the credit reporting agencies.** Inquiries remain on your credit report for two years, although FICO scores only consider inquiries from the last 12 months. The scores have been carefully designed to count only those inquiries that truly impact credit risk—see page 14 for details.
- **Length of time since credit report inquiries were made by lenders.**
- **Whether you have a good recent credit history, following past payment problems.** Re-establishing credit and making payments on time after a period of late payment behavior will help to raise a score over time.

5. Types of Credit in Use

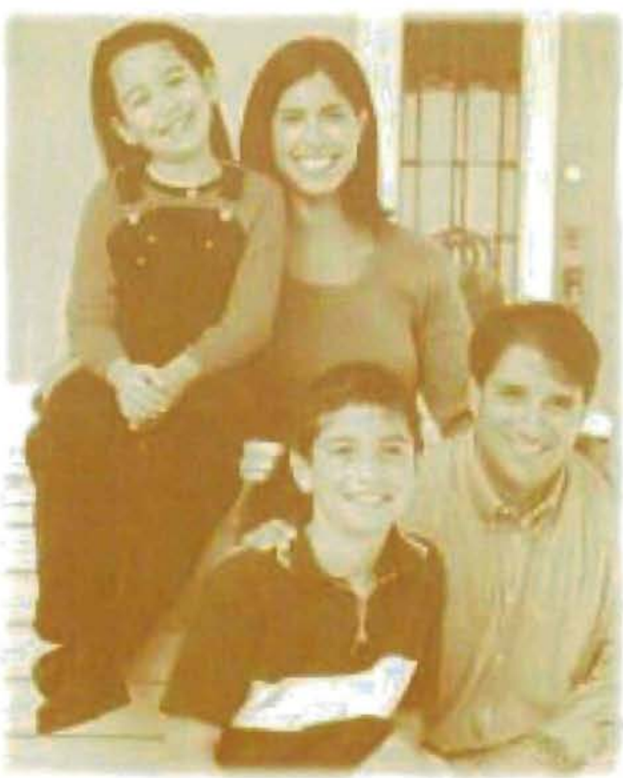
Is it a "healthy" mix?

Approximately 10% of your score is based on this category.

The score will consider your mix of credit cards, retail accounts, installment loans, finance company accounts and mortgage loans. It is *not* necessary to have one of each, and it is not a good idea to open credit accounts you don't intend to use. The credit mix usually won't be a key factor in determining your score—but it will be more important if your credit report does not have a lot of other information on which to base a score.

Your score takes into account:

- **What kinds of credit accounts you have, and how many of each.** The score also looks at the total number of accounts you have. For different credit profiles, how many is *too* many will vary.



TIPS for Raising Your Score

- **Apply for and open new credit accounts only as needed.** Don't open accounts just to have a better credit mix—it probably won't raise your score.
- **Have credit cards—but manage them responsibly.** In general, having credit cards and installment loans (and making timely payments) will raise your score. People with no credit cards, for example, tend to be higher risk than people who have managed credit cards responsibly.
- **Note that closing an account doesn't make it go away.** A closed account will still show up on your credit report, and may be considered by the score.

Should I close old accounts to raise my score?

Generally, this doesn't work. In fact, it might lower your score. First of all, any late payments associated with old accounts won't disappear from your credit report if you close the account. Second, long-established accounts show you have a longer history of managing credit, which is a good thing. And third, having available credit that you don't use does not lower your score.

You may have reasons other than your score to shut down old credit card accounts that you don't use. But don't do it just to get a better score.

How the FICO Score Counts Inquiries

As explained in the last section, a search for new credit can mean greater credit risk. This is why the FICO score counts inquiries—requests a lender makes for your credit report or score when you apply for credit.

FICO scores consider inquiries very carefully, as not all inquiries are related to credit risk. There are three things to note here:

- **Inquiries don't affect scores that much.** For most people, one additional credit inquiry will take less than five points off their FICO score. However, inquiries can have a greater impact if you have few accounts or a short credit history. Large numbers of inquiries also mean greater risk: People with six inquiries or more on their credit reports are eight times more likely to declare bankruptcy than people with no inquiries on their reports.

- **Many kinds of inquiries aren't counted at all.** The score does not count it when you order your credit report or credit score from a credit reporting agency or the myFICO service. Also, the score does not count requests a lender has made for your credit report or score in order to make you a "pre-approved" credit offer, or to review your account with them, even though you may see these inquiries on your credit report. Requests that are marked as coming from employers are not counted either.

- **The score looks for "rate shopping."** Looking for a mortgage or an auto loan may cause multiple lenders to request your credit report, even though you're only looking for one loan. To compensate for this, the score counts multiple inquiries in any 14-day period as just one inquiry. In addition, the score ignores all inquiries made in the 30 days prior to scoring. So if you find a loan within 30 days, the inquiries won't affect your score while you're rate shopping.

Interpreting Your Score

When a lender receives your Fair Isaac credit bureau risk score, up to four "score reasons" are also delivered. These are the top reasons why your score was not higher. If the lender rejects your request for credit, and your FICO score was part of the reason, these score reasons can help the lender tell you why your score wasn't higher.

These score reasons are more useful than the score itself in helping you determine whether your credit report might contain errors, and how you might improve your credit health. However, if you already have a high score (for example, in the mid-700s or higher) some of the reasons may not be very helpful, as they may be marginal factors related to the last three categories described previously (length of credit history, new credit and types of credit in use).

To see your own FICO score and reason codes with a detailed explanation on how you can improve the score over time, visit *www.myfico.com*.

What if I'm turned down for credit?

If you have been turned down for credit, the Equal Credit Opportunity Act (ECOA) gives you the right to obtain the reasons why within 30 days. You are also entitled to a free copy of your credit bureau report within 60 days, which you can request from the credit reporting agencies.

If the score was a primary part of the lender's decision, the lender will use the score reasons (see left) to explain why you didn't qualify for the credit. To get more specific information on what your score is and how you could improve it, go to *www.myfico.com*.

What is a good FICO score to get?

Since there's no one "score cutoff" used by all lenders, it's hard to say what a good score is outside the context of a particular lending decision. For example, one auto lender may offer lower interest rates to people with FICO scores above, say, 680; another lender may use 720, and so on. Your lender may be able to give you guidance on the criteria for a given credit product.

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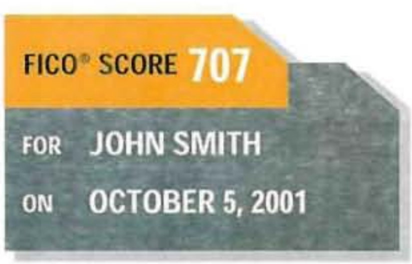


Your Credit Profile

The myFICO service can help you understand how lenders see your credit risk picture.

Checking Your Score

Since lenders check your score, it makes sense to see how lenders see you. It's easy to check your own FICO score, and to find out specific things you can do to raise it.

You can order your FICO score through online services developed by Fair Isaac, in partnership with credit reporting agencies. Our score delivery services give you all the information you need to understand your score, the information it's based on, and ways to improve your credit health.

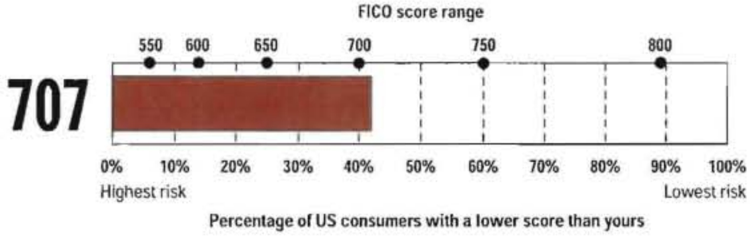
An important time to check your score is six months or so before a major purchase, such as a car or home loan. This gives you time to make sure your credit report information is right, correct it if it's not, and improve your score if necessary. In general, any time you are applying for credit, taking out a new loan or changing your credit mix is a good time to check your FICO score.

MANAGE YOUR CREDIT HEALTH

Improving your FICO score can help you:

- *Get better credit offers*
- *Lower your interest rates*
- *Speed up credit approvals*

The payoff from a better FICO score can be big. For example, with a 30-year fixed mortgage of $150,000, you could save approximately $131,000 over the life of the loan—or $365 on each monthly payment—by first improving your FICO score from a 550 to a 720.



ORDERING YOUR SCORE AND MORE

FICO score delivery services are available through many banks, financial services sites, credit reporting agencies and Fair Isaac's myFICO site (*www.myfico.com*). These services include:

- Your current **FICO score**—the credit score lenders use to measure your credit risk.
- Your **credit report**, on which your FICO score is based.
- A **full explanation** of your score, the positive and negative factors behind it, and how lenders view your credit risk.
- A FICO **score simulator** you can use to see how specific actions, such as paying off all your card balances, would affect your score.
- **Specific tips** on what you can do to improve your FICO score over time.

The myFICO site also features in-depth information on FICO scores, including a full list of the score factors and sound advice for managing your credit health. In addition, you can see current information on the average interest rates for home and auto loans for different FICO score ranges.

BEFORE YOU BUY YOUR SCORE

Make sure you're buying your FICO score. Some businesses will sell or give you credit scores that are not FICO scores and may not be used by any lenders at all. These services may also give you credit management advice that does not apply to FICO scores and could actually hurt your credit standing with lenders.

The advice in this booklet and on *www.myfico.com* applies to FICO scores only, not to all scores. FICO scores are the scores most lenders use. Your FICO score is the score to know.

Check your score and learn more about scoring at *www.myfico.com*

Get the Facts About Credit Scores

Managing your credit health means knowing how your credit score works. This booklet answers your questions on credit scoring, including:

How can I fix errors on my credit report? 4

Which scores are the real FICO scores? 7

What are the five most important things my credit score considers? 8

Will checking my credit score make it drop? . . 14

How much do inquiries affect my score? 14

Will closing old accounts raise my score? . . . 14

What's a good score to get? 16

How can I check my own credit score—and why should I? 16

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Fair Isaac Corporation
P.O. Box 11746
San Rafael, CA 94912-1746
www.myfico.com
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