

## The History of Credit Scores

Ever wonder how credit scores began, or who came up with the formula for the FICO score? To truly understand what your score means in relation to your everyday life, it's important to know the history behind it.

Credit scores became widely used in the 1980s. Long before credit scores, human judgment was the sole factor in deciding who received credit. Lenders used their past experience at observing consumer credit behavior as the basis for judging new consumers. Not only was this a slow process, but it was also unreliable because of human error. Lenders eventually began to standardize how they made credit decisions by using a point system that scored the different variables on a consumer's credit report. This point system helped to eliminate much of the bias that previously existed; however, it was still tied to intuitive measures of credit worthiness and was not based on actual consumer behavior. Credit granting took a huge leap forward when statistical models were built that considered numerous variables and combinations of variables. These models were built using payment information from thousands of actual consumers, which made scores highly effective in predicting consumer credit behavior. When combined with computer applications, scoring models have made the credit granting process extremely fast, efficient and objective, facilitating commerce and helping consumers quickly get the credit they need.

The Fair Isaac Corporation introduced the formula for the FICO score in 1970. It took almost 12 years for the founders of the company, mathematician Earl Isaac and engineer Bill Fair, to write the formula. Now, FICO scores are the credit scores most lenders use to determine your credit risk. You have three FICO scores, one for each of the three credit bureaus: Experian, TransUnion, and Equifax. Each score is based on information the credit bureau keeps on file about you. As this information changes, your credit scores tend to change as well. Your 3 FICO scores affect both how much and what loan terms lenders will offer you at any given time.

For your three FICO scores to be calculated, each of your three credit reports must contain at least one account which has been open for at least six months. In addition, each 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 FICO score on each report.

FICO scores have different names at each of the credit reporting agencies. All of these scores, however, are developed using the same methods by Fair Isaac, and have been rigorously tested to ensure they provide the most accurate picture of credit risk possible using credit report data.

| Credit Reporting Agency | FICO Score                     |
|-------------------------|--------------------------------|
| Equifax                 | BEACON® Score                  |
| Experian                | Experian/Fair Isaac Risk Model |

| Credit Reporting Agency | FICO Score |
|-------------------------|------------|
| TransUnion              | EMPIRICA®  |

Want to delve deeper into the factors that make up your credit score? Check back next week and we'll tell you why making payments on time is the most important step in achieving a high credit score.