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REAL ESTATE

Credit Scores vs. Credit Reports

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Mortgages

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The advice from most mortgage professionals to first-time home buyers is to begin sprucing up their credit at least six months before applying for a loan. Credit scores and credit reports are readily available for purchase online, but figuring out which is most accurate can be daunting.

A credit score and a credit report are different, but related. The report contains a consumer's credit history, including things like credit-card use and auto loans, as well as debts that were sent for collection and bankruptcies. A credit score is a single number that represents credit risk, based on the data contained in the credit report.

Most mortgage lenders use scores from FICO of San Jose, Calif., formerly known as the Fair Issac Corporation, to evaluate borrowers' creditworthiness. Required for underwriting loans backed by Fannie Mae and Freddie Mac, FICO scores range from 300 to 850. The higher the score, the better the credit risk — and the more favorable the terms a borrower is likely to be offered on a mortgage.

The FICO scores seen by lenders, however, are not what are sold to consumers by the three national credit reporting agencies — TransUnion, Equifax and Experian. These sites use their own proprietary scoring models to generate what are called "educational scores" for consumers.

"All of these credit scores could be very different from the score the bank uses," said Tracy A. Becker, the president of North Shore Advisory, a credit-restoration service in Tarrytown, N.Y.

But Ken Chaplin, the senior vice president of TransUnion Interactive, the consumer subsidiary of TransUnion, said the bureaus designed the educational scoring models to be "within a reasonable range" of the FICO scores a lender uses. (There are different FICO scoring models, and some are tailored to the mortgage industry.) Borrowers can use the educational scores to determine whether they are an excellent, good or bad credit risk, Mr. Chaplin said.

"Are they going to be exactly the same number that a bank might look at? Possibly not," he said. "But they would most likely fall into the same category" of credit risk.

Consumers will get a more accurate credit reading by buying their scores directly from myFICO.com, FICO's consumer division, said Anthony Sprauve, a senior consumer credit specialist for FICO and myFICO.com. For $59.85, consumers can buy FICO scores and three credit reports as generated by the bureaus.

These scores are generated by each bureau using the latest version of FICO, which is adopted by more than 50 percent of the lenders in the marketplace, Mr. Sprauve said. While the scores (which will vary slightly among bureaus) may not match the lender's version of FICO exactly, they are pretty close, he said.

The only way consumers will know for sure how their credit looks to lenders is by applying for preapproval or filling out a mortgage application. "You have to get your FICO score from the bank," Ms. Becker said. But, she added, consumers should scrutinize their credit report beforehand to look for red flags. This might include outstanding judgments that could stand in the way of loan approval.

Borrowers should also look for errors on their report, Mr. Chaplin said. And while it's a good idea to pay down credit card balances before applying for a mortgage, consumers shouldn't close credit card accounts, even if they don't intend to use them. "Having access to that credit is going to positively affect your score," he said.

Mr. Sprauve noted that reports from myFICO.com come with "reason codes" that explain what can be done to improve a credit score.

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