

# MORTGAGE LENDING UPDATE

By David Griffin

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## Credit Score Facts

Here are some more great credit score insights from my friend, Barbara Lovejoy, Credit Queen and EVP of National Sales for Credit Technologies of Wixom, Michigan.

**Inquiries** - To accommodate rate shopping, the FICO score model ignores all auto and home mortgage inquiries made in the prior 30 days from that inquiry. When a consumer is rate shopping those inquiries within that 30 day period will not factor into the score model. Subsequently any of these clusters of inquiries within a 30 day period of time are counted as one inquiry in determining your credit score.

**Collection Accounts** - Collection accounts have long confounded the lending community as many lenders look to change these immediately in hopes of raising a credit score. That is not always how it works out. In many cases when changing or challenging a collection trade line on a credit report, if it is updated, it will change the date of last activity to a more recent date. The score will then reflect this as being a recent delinquency instead of one that may be older than 2 years. If you are looking to improve a credit score based on a collection trade line it's best to try to negotiate with the collection agency (or the original creditor) to have the collection removed completely from the credit file. Complete removal would have an immediate positive impact on the credit score and assuming other good variables, should provide an instant lift in the score.

**Charged off Accounts** – these are accounts which the lender has written off the books. If a payment is made to a charged off account this may also change the date of last activity status and impact the score negatively. When paying a charge off or a collection, the only change to the status will be to show “paid charge off / collection” which doesn't change the fact that it is still a delinquency, albeit a paid delinquency.

The FICO Score looks at all information on a credit report and not just one or two items included in a credit report.

The weight of any one given factor depends on the total of all information in a credit report. It's extremely difficult to indicate which factor impacts the score the greatest or what changes made will impact the credit score. The information is included as part of the general population and how you fit into that population as well as changes over time on the credit report and the impact it will have on the score factors. It's important to remember that the score is a “real time” model and changes over time based on changes in your credit information.

The score takes into account both positive and negative information. While data reflecting delinquencies will lower the score, improving negative items, re-establishing good credit, continuing to make your payments on time and keeping balances in check, will help improve your FICO score in the long run.

Here are some factors that are typical of high scoring credit files:

- **Age of Oldest Account:** Consumers with Higher FICO scores generally have an oldest open account of 15 years or greater.
- **Account Age Average:** Most consumers with higher FICO scores have an average age of accounts between 6 and 12 years
- **Revolving Account:** Consumers with higher FICO scores opened their first revolving account 19 years ago, on average.
- **Newest Account:** Consumers with higher FICO opened their most recent account greater than 24 months ago.
- **Utilization Rate:** Consumer that score higher generally have a revolving utilization rate of 10% or less.
- **Inquiries:** Those with higher scores did not apply for credit within the past year (75%) and those that did apply did not exceed an average of 2 inquiries.
- **Payment History – Accounts with late payments:** Greater than 90% have no late payments and if there are late payments they occurred over 4 years ago.

*David Griffin has been financing homes in Macon, Warner Robins and all of Middle Georgia since 1983 and is a member of the Mortgage Bankers Association of Georgia, mbag.org. For an archive of past articles visit [mbag.org/ML\\_Update.html](http://mbag.org/ML_Update.html).(714/10)*