

# MORTGAGE LENDING UPDATE

By David Griffin

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## Credit scores are falling

As was recently announced by the Fair Isaac Corporation, creator of FICO® scores, commonly known as credit scores, millions more Americans are seeing their scores sink to new lows.

From a recent article by Eileen Connelly, personal finance writer for the Associated Press: "Figures provided by the Fair Isaac Corporation (FICO) show that 25.5% of consumers — nearly 43.4 million people — now have a credit score of 599 or below, marking them as poor risks for lenders. It's unlikely they will be able to get credit cards, auto loans or mortgages under the tighter lending standards banks now use.

FICO's latest analysis is based on consumer credit reports as of April. Its findings represent an increase of about 2.4 million people in the lowest credit score categories in the past two years. Before the Great Recession, scores on FICO's 300-to-850 scale weren't as volatile, said Andrew Jennings, chief research officer for FICO in Minneapolis. Historically, just 15% of the 170 million consumers with active credit accounts, or 25.5 million people, fell below 599, according to data posted on Myfico.com."

To give you an idea of what a "typical" American credit report now looks like, here is some information from the Fair Isaac website, myfico.com: "As a company that helps the nation's largest banks and financial institutions assess credit risk, Fair Isaac is often asked to describe the credit use of a typical consumer. In researching the answer, we discovered that consumers vary immensely in what types of credit they use and how they use it.

By analyzing a representative national sample of millions of consumer credit profiles, Fair Isaac was able to survey the panorama of credit activity across the U.S. The following statistics reflect the average use of credit by today's consumers.

**Number of Credit Obligations:** On average, today's consumer has a total of 13 credit obligations on record at a credit bureau. These include credit cards (such as department store charge cards, gas cards, or bank cards) and installment loans (auto loans, mortgage loans, student loans, etc.). Not included are savings and checking accounts (typically not reported to a credit bureau). Of these 13 credit obligations, 9 are likely to be credit cards and 4 are likely to be installment loans.

**Past Payment Performance:** On average, today's consumers are paying their bills on time. Less than half of all consumers have ever been reported as 30 or more days late on a payment. Only 3 out of 10 have ever been 60 or more days overdue on any credit obligation. 77% of all consumers have never had a loan or account that was 90+ days overdue, and less than 20% have ever had a loan or account closed by the lender due to default.

**Credit Utilization:** About 40% of credit card holders carry a balance of less than \$1,000. About 15% are far less conservative in their use of credit cards and have total card balances in excess of \$10,000. When we look at the total of all credit obligations combined (except mortgage loans), 48% of consumers carry less than \$5,000 of debt. This includes all credit cards, lines of credit, and loans-everything but mortgages. Nearly 37% carry more than \$10,000 of non-mortgage-related debt as reported to the credit bureaus.

**Total Available Credit:** The typical consumer has access to approximately \$19,000 on all credit cards combined. More than half of all people with credit cards are using less than 30% of their total credit card limit. Just over 1 in 7 are using 80% or more of their credit card limit.

**Length of Credit History:** The average consumer's oldest obligation is 14 years old, indicating that he or she has been managing credit for some time. In fact, we found that 1 out of 4 consumers had credit histories of 20 years or longer. Only 1 in 20 consumers had credit histories shorter than 2 years.

**Credit Inquiries:** When someone applies for a loan or a new credit card account - in short, any time one applies for credit and a lender requests a copy of the credit report - this request is noted as an "inquiry" in the applicant's credit file. The average consumer has had only one inquiry on his or her accounts within the past year. Fewer than 6% had four or more inquiries resulting from a search for new credit."

*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).(7/21/10)*