

# MORTGAGE LENDING UPDATE

By David Griffin

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## Credit Score DO's and DON'Ts

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

Do:

**Pay Any Delinquent Accounts Current.** When there is a delinquency on an account (trade line) and it later becomes and remains current, it will then begin to have a positive impact on the credit report. This does not, however, diminish the time factor involved. If this delinquency is recent (within the past 24 months) its weight is going to be much higher on the credit score than if it was older than 24 months. The best avenue for taking care of a situation such as this is to see if this late payment is in fact "late" and if it is not late to have it researched at the bureaus and updated to show as being current (removing the delinquency status). This may be accomplished directly by the creditor or through the credit reporting agency. When directing a consumer to work with their creditors, it's important to remind him/her that they should obtain documentation the information will be changed on their credit record and what that change will be.

**Decrease Your Account Balances.** Because 30% of the score is related to balances, steep reductions in overall balances will have a positive impact on the credit score. To accomplish this, the consumer should make a payment directly with the creditor and obtain a receipt for that payment (or a letter indicating payment with the new balance). The general rule is to reduce the balance to credit limit ratio on all accounts (as a whole and individually) to lower than 50% (preferably 30%) to improve scores.

**Wait And It Will Get Better a/k/a Time Since Derogatory Credit Appeared.** If an account has a recent delinquency or late payment or if there exists some type of public record (tax lien, judgment or bankruptcy), the impact on the credit score is higher if it occurred within the past 2 years. Generally, if the public records are correct, it's simply a matter of time before it will start to have a lower impact on the score.

Don't:

**Don't Allow A Current Account To Become Delinquent.** Self-explanatory, but new derogatory items can appear on the credit report affecting the score negatively. Many lenders are now pulling updated credit reports the day before closing.

**Don't Increase Balances Significantly.** This is very important especially during the home buying process between the time a borrower may have signed all of their loan documents and the time the loan is submitted for underwriting at the investor level. What often occurs is that a borrower may go on a "shopping spree for the new house" and raise their balances on certain accounts. This will lead to a negative impact on the credit score and possibly changing the ability of the lender to approve the loan. Many lenders today will ask their borrowers to refrain from making any large purchases or opening any new accounts until the loan has closed and funded.

**Don't Close Multiple Accounts.** This may at first seem illogical, but open accounts with a zero balance actually help the credit score. These open, yet zero balance accounts contribute positively to the credit score. If an account is closed and has a zero balance, its information is no longer used in the score calculation model and this reduces the mix of credit, it increases the percentage of current use of available credit, it removes a high credit limit and changes the open and use dates in the credit report. In short – when consulting with a consumer it's better to keep them open and zero than to close them permanently.

*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).(7/7/10)*