

the Mortgage Bulletin

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Credit scores redux

The Mortgage Bulletin has addressed the credit score issue many times. The reason is quite simple: credit scores are extremely important to borrowers.

Many borrowers realize just how important only when they apply for a mortgage and learn the impact of their score on their rate, possible loan amount, or available loan products. Then it may be too late to take remedial action. So part of today's message is a request to pass this Mortgage Bulletin along to anyone you know who may be contemplating getting a mortgage loan.

Limited space prevents a full discussion on how to have the best possible credit score, but here are some things to know.

Lenders do not make exceptions to policies about credit scores. Each borrower gets three scores. Lenders use the lowest middle score of the borrowers. It's not the average, it's the middle score.

How important? One lender gives bonus pricing of .375 points to borrowers with an 800 mid score. A 799 mid score is terrific but it doesn't get the .375 bonus. For a \$750,000 loan the potential bonus is \$2,625.

This one example may be enough to cause you to go online, sign up for a credit monitoring service and get your report. And it is a good idea to do this. But you should know that the scores you get are not the same as the scores you will get when a credit report is obtained in connection with a mortgage. Credit scores used for mortgages will be slightly lower.

This is because scores for mortgage lenders are obtained using a different scoring model. The online scores are for auto dealers, department stores and other consumer credit companies. Mortgage lenders use the classic FICO model with scores ranging from 300 to 850. Auto dealers use a different model with scores up to 900. So a consumer might get an online 720 score and a mortgage lender score could be 700.

Also, credit scores change and are sensitive to recent events. A 30 day late payment last month has a greater negative impact than one six months ago. A late payment more than twelve months ago has less impact than six months ago, and so on.

Balances owed as a percent of the credit limits on consumer loans are important. A balance of \$3,000 on a credit card with a limit of \$10,000 is better for your scores than \$3,000 balance and a limit of \$4,000. Keep track of your balances and limits. If at all possible, keep balances at 30% or less.

An often overlooked factor influencing credit scores is length of credit. The longer you have held a credit card or account at a department store the better. In fact, length of credit is almost as important as your record of prompt payment.

For this reason, do not cancel old credit cards. And in light of new lender policies, use old accounts once in awhile or the lender might cancel them for lack of use, ironically lowering your scores. You have done nothing wrong. You probably did not know that, but now you do, so take heed.

You may be tempted to close a credit card you have had for ten years and transfer to another bank because your present bank has adopted a new policy you don't like. Be careful. Negotiate with your present bank first, and if unsuccessful, pay the balance down but keep the present card active by using it once in awhile. If you transfer, get a new higher limit than the balance being transferred. Remember the 30% rule, and old credit is better for your score than new credit.

In addition to your scores, there are two other important numbers to know: three and two. Except for FHA loans, mortgage lenders REQUIRE a minimum of three accounts having been active for a minimum of two years. So – keep at least three open and active accounts and make timely payments. And read this week's quote.



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