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Know the Score

Educate Yourself about Credit Scores and Critical Credit Issues

Credit scoring has an enormous impact on your ability to borrow money. It can mean the difference between getting a good interest rate on your mortgage loan, or whether you even qualify at all. As a potential or current homeowner, it is imperative to be well-versed on the factors that influence your credit score.

What is a Credit Score and How is That Number Determined?

Credit bureau scores are often called *FICO scores* because most credit bureau scores used in the United States are produced from software developed by Fair Isaac and Company (FICO). FICO scores are provided to lenders by the three major credit-reporting agencies: Equifax, Experian and TransUnion. What the credit score seeks to quantify is how likely the consumer is to payoff their debt, without being more than 90 days late on a payment at any time.

Credit scores provide the best guide to future risk based solely on credit report data. The higher the score, the lower the risk for the lender. There is no single *cutoff score* used by all lenders, and there are many additional factors that lenders use to determine actual interest rate for your loan. It is important to note that credit scoring is NOT underwriting a loan application – it is only one variable that is considered in the underwriting process.

Credit scores can range between a low score of 300 and a high of 850. The higher the score is, the less likely to default on a loan. Only a rare one out of approximately 1,300 people in the United States has a credit score of above 800. These are the slam-dunk borrowers who walk away with the best interest rates. On the other hand, one out of eight prospective homebuyers are faced with the scenario that they may not qualify for the loan they want because they have a lower score, between 500 and 600. See the inserted chart that provides the tiering structure of scores and what they mean to a mortgage underwriter.

Credit Score	Grade
720 and over	Wonderful -Best rates and terms are offered to you.
700-719	Excellent score. Very desirable borrower.
680-699	Good credit. Very strong shape to buy.
660-679	OK credit.
640-659	Borderline. OK if everything else in loan file is strong.
620-639	Weak. The rest of your file must be perfect.
600-619	Difficult - may need special loan program.
Below 600	Trouble. Only special programs for loans. Try to repair your credit.

The Mathematics of the Score

Credit scoring is calculated by a mathematical equation that evaluates many types of information found in a consumer's credit file at that specific credit bureau. By comparing this information to the repayment patterns in hundreds of thousands of consumers' past credit reports, the score identifies the lender's level of future credit risk. In order for a credit score to be calculated, the consumer's file must contain at least one account that has been open for six months or longer AND the file must contain at least one account that has been updated in the past six months. If this information is available, there is enough RECENT information on which the bureau can base a score.

Five Factors Affecting Your Score

What credit scoring takes into consideration are five factors basic categories of financial information that combine to create a model that tries to quantify the consumer's potential to pay off their debt, without being more than 90 days late on a payment at any time in the future.

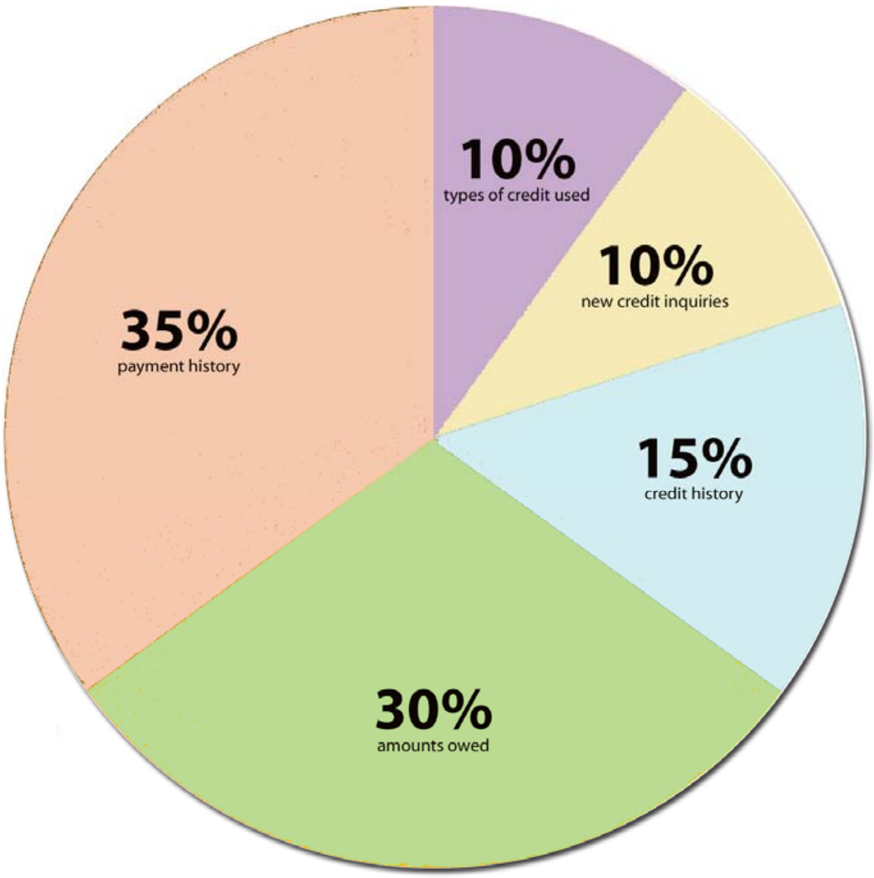
The score is calculated from five factors, listed in order of importance:

- Payment History: 35 percent impact. Paying debt on time and in full has a positive impact. Late payments, judgments, and charge-offs have a negative impact. Missing a high payment has a more severe impact than missing a low payment.

- Outstanding Credit Balances: 30 percent impact. The ratio of the difference between the outstanding balance and the available credit is important here. Having available credit means a higher score. (hint – don't close accounts with a zero balance)

- Credit History: 15 percent impact. This marks the length of time since a particular credit line was established. A seasoned (credit line open for long period of time) borrower is stronger in this area.

- Type of Credit: 10 percent impact. A mix of auto loans, credit cards, and mortgages is more positive than a concentration of debt from credit cards only.



The FIVE FACTORS
Credit Score Elements

- Inquiries: 10 percent impact. This quantifies the number of inquiries that have been made on a consumer's credit history within a six-month period. Each inquiry can cost from two to 10 points on a credit score, but the maximum number of inquiries that will reduce the score is 10. Eleven or more inquiries in a six-month period will have no further impact on the borrower's credit score.

What a Credit Score is Not

While credit scores include a wide range of information about a consumer's credit, they DO NOT include or consider:

1) The consumer's age, race, color, religion, national original, sex or marital status.
2) A consumer's salary, occupation, title, employer, date employed or employment history.
3) Where a consumer lives.
4) Any interest rate being charged on a particular credit card or other account.

Multiple inquires over a 14 day period by auto dealers or mortgage companies are counted as one inquiry. Multiple inquires by credit card companies or consumer loans will deduct 2 or more points from your score for each inquiry.

Computers Don't Get Personal

One thing that is important to remember is that the computer is not taking any personal factors into consideration when it calculates these scores. When you see your credit report, it is simply a snapshot of your credit profile. This can fluctuate dramatically within the course of a month, depending on the your credit activities. Make sure you are aware of this when you enter into the loan process, and understand that it's not in your best interest to go out on a shopping spree or do anything else that would create a negative impact on the score while the lender is reviewing it. Your report will usually lag about 30 days behind your actual situation, as the creditors only report to the credit bureaus once a month.

A lender will look at your Tri-Merge Credit Report. This combines the scores provided by Experian, the score generated by TransUnion (Empirica), and the Beacon Score produced by Equifax. A lender looks at this rounded profile because these three scoring systems can vary in their results.

This, in addition to the rest of your file, will determine your loan approval. The higher your score, the less the other information is reviewed in detail.

Fair and Accurate Credit Transaction Act (FACT Act)

The Fact Act law gives everyone the right to a free credit report. When you apply for a mortgage, the lender is REQUIRED to give you your credit score and show you the report that it's based on. How do you get a copy? Go to https://www.annualcreditreport.com.

You can get one free report each year from each of the major credit bureaus (there are three credit bureaus –http://www.goodmortgage.com/Learn/Credit/Credit_Agencies.html).

If you see a mistake on your report - dispute it! There is a form attached to your report to help you do so. Once your dispute is received, the credit bureau has 30 days to either verify or remove the item from your report.

Need Additional Information?

Please email us at customerservice@goodmortgage.com or call us Toll Free at 877-523-3886.