

Credit Report Education

TREC Course #35559
1 Hour CE Credit

Red Diamond Home Loans & WFG Title

"Lloyd, your credit score is 470."



"So You're Telling Me There's a Chance?"

Overview

1. Significance of credit
2. What does a mortgage credit report look like?
3. What do the scores need to be for a loan approval?
4. What are the implications and costs of a low score?
5. How can we improve a credit score?
6. What NOT to do in regards to credit
7. Unique scenarios
8. Common Misconceptions



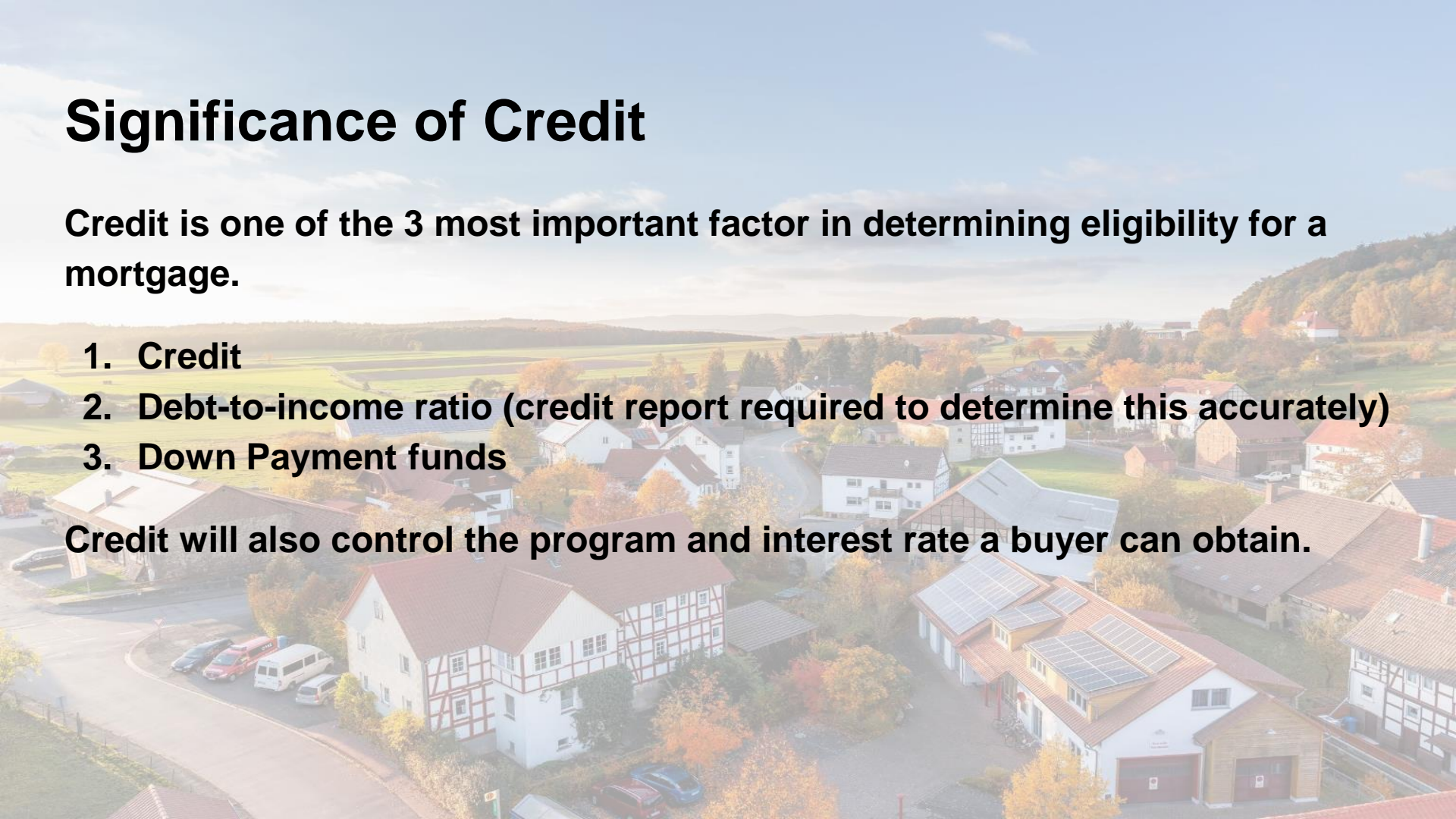
Questions
anytime!

Significance of Credit

Credit is one of the 3 most important factor in determining eligibility for a mortgage.

- 1. Credit**
- 2. Debt-to-income ratio (credit report required to determine this accurately)**
- 3. Down Payment funds**

Credit will also control the program and interest rate a buyer can obtain.



What does a mortgage credit report look like?

FILE #	9792792	FNMA #	DATE COMPLETED	1/4/2016	RQD' BY	NEW ACCOUNT SETUP
SEND TO	Universal Credit CUST. # 0522 370 REED RD BROOMALL, PA 19008		DATE ORDERED	1/4/2016	REPOSITORIES	XP/TU/EF
			PRICE	\$0.00	PRPD' BY	
			REF. #		LOAN TYPE	

PROPERTY ADDRESS

APPLICANT			CO-APPLICANT		
APPLICANT	TESTCASE, JOSEPH		CO-APPLICANT		
SOC SEC #	000-00-0001	DOB	SOC SEC #		DOB
MARITAL STATUS			DEPENDENTS		
CURRENT ADDRESS	123 MAIN ST, BROOMALL, PA 19008			LENGTH	
PREVIOUS ADDRESS				LENGTH	

SCORE MODELS

EQUIFAX/FICO CLASSIC V5 FACTA - MARISOL LEMUS TESTCASE - 000000001
SCORE: 743
 00030 - TIME SINCE MOST RECENT ACCOUNT OPENING IS TOO SHORT
 00014 - LENGTH OF TIME ACCOUNTS HAVE BEEN ESTABLISHED
 00008 - TOO MANY INQUIRIES LAST 12 MONTHS
 00012 - LENGTH OF TIME REVOLVING ACCOUNTS HAVE BEEN ESTABLISHED

TRANSUNION/FICO CLASSIC (98) - MARISOL L TESTCASE - 000000001
SCORE: 741
 014 - LENGTH OF TIME ACCOUNTS HAVE BEEN ESTABLISHED
 012 - LENGTH OF TIME REVOLVING ACCOUNTS HAVE BEEN ESTABLISHED
 008 - TOO MANY INQUIRIES LAST 12 MONTHS
 030 - TIME SINCE MOST RECENT ACCOUNT OPENING IS TOO SHORT
 FA - INQUIRIES IMPACTED THE CREDIT SCORE

EXPERIAN/FAIR, ISAAC (VER. 2) - MARISOL TESTCASE - 000000001
SCORE: 745
 14 - LENGTH OF TIME ACCOUNTS HAVE BEEN ESTABLISHED
 08 - TOO MANY INQUIRIES LAST 12 MONTHS
 09 - TOO MANY ACCOUNTS RECENTLY OPENED

[Request New Tradeline](#)

TRADELINES

E C O A	W H O S E	CREDITOR	DATE REPORTED	DATE OPENED	HIGH CREDIT OR LIMIT	BALANCE	PAST DUE	MO REV	30	60	90+	STATUS
				DLA	ACCT TYPE	TERMS						SOURCE
B	B	USAA FEDERAL SAVINGS ACCT000006 Directory: 800-531-2265 PO BOX 47504 SAN ANTONIO, TX 78265	12/15	04/15 06/15	\$31206 AUTO	\$28626 069 5533	\$0	9	0	0	0	AS AGREED XP/TU/EF

The content in a full report includes...

First few pages: Tradelines

- **Current Accounts, Derogatory Accounts, Collection/Charge Off**

Following Tradelines:

- **Other Credit History, Public Records, Alert, Remarks, Trade Summary, Derogatory Summary, Source of Information, Inquiries, Creditors, and more disclosures.**

Why & How are mortgage credit scores different than consumer credit scores?

Not all scores are the same! ----->

There are Auto Scores, Bankcard Scores, and Base Scores.

Mortgage scores use an older Base scoring model - auto lenders and bankers often use more updated models, and a different calculating formula.

Experian, Equifax, TransUnion

Most widely used version

FICO® Score 8, FICO® Score 8, FICO® Score 8

Versions used in auto lending

FICO® Auto Score 8, FICO® Auto Score 2, FICO® Auto Score 8, FICO® Auto Score 5, FICO® Auto Score 8, FICO® Auto Score 4

Versions used in credit card decisioning

FICO® Bankcard Score 8, FICO® Score 3, FICO® Bankcard Score 2, FICO® Bankcard Score 8, FICO® Bankcard Score 5, ~~FICO® Bankcard Score 8~~, FICO® Bankcard Score 4

Versions used in mortgage lending

FICO® Score 2, FICO® Score 5, FICO® Score 4

Newly released version

FICO® Score 9, FICO® Auto Score 9, FICO® Bankcard Score 9, FICO® Score 9, FICO® Auto Score 9, FICO® Bankcard Score 9

FICO® Score 9, FICO® Auto Score 9, FICO® Bankcard Score 9

FICO and VantageScores rate you using the same basic criteria:

1. Payment history
2. Length of credit
3. Types of credit
4. Credit usage
5. Recent inquiries

What are the differences?

NOTE: Mortgage lenders still using FICO model 2, 5, and 4.

Examples of updates in FICO Version 8:

- Credit card usage (more penalty higher utilization/less for lower)
- Isolated late payments (more forgiving for one/less forgiving for many)
- Authorized user of credit cards (reduces the benefit of co-signing to prevent misrepresenting the individuals credit)
- Small balance collection accounts (under \$100 ignored)

Examples of updated in FICO version 9:

- Third party collections that have been paid off no longer have a negative impact
- Unpaid medical collections have less impact
- Rental history may be reported and taken into account

Where can I check my scores?

- **Credit Karma:** uses Vantage scores, but will reflect relatively closely to FICO scores (generally Credit Karma scores are **higher** than mortgage scores)
- **Discover Credit Scorecard:** Reports your TransUnion credit score and report (1 of the 3 we consider). They use FICO Score 8 - so a more updated version than what a mortgage report will reflect.
- **AnnualCreditReport.com:** Free annual credit report. Does **not** include credit scores, just tradelines.
- **MyFICO:** more accurate, reports all 3 bureaus, costs money for the service.

I would always recommend having your buyers understand their scores as a first step in looking for a home. When we pull the mortgage report, it will be a hard inquiry whereas credit karma for example will not show as an inquiry at all.

What is the minimum score for a loan approval?

An FHA loan approval generally requires a minimum score of **580**,

It could be possible to find a lender that will go below 580, but this will require a higher down payment (10% or more), low debt-to-income ratio, and will have a high interest rate.

Conventional loans and more conservative lenders have a minimum score of **620**.

What does a low credit score cost in a mortgage?

Low credit scores can cost a significant amount of money over the life of the loan solely based on LLPAs and investor adjustments to the price.

This margin goes directly to Fannie Mae and/or FHA due to the long-term risk of the lower score.

These implications are important to consider when obtaining any type of loan - not just mortgages.

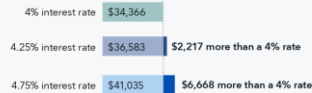
Table 1: All Eligible Mortgages – LLPA by Credit Score/LTV Ratio

Representative Credit Score	LTV Range									
	Applicable for all mortgages with terms greater than 15 years									
	≤ 60.00%	60.01 – 70.00%	70.01 – 75.00%	75.01 – 80.00%	80.01 – 85.00%	85.01 – 90.00%	90.01 – 95.00%	95.01 – 97.00%	>97.00%	SFC
≥ 740	0.000%	0.250%	0.250%	0.500%	0.250%	0.250%	0.250%	0.750%	0.750%	N/A
720 – 739	0.000%	0.250%	0.500%	0.500%	0.500%	0.500%	0.500%	1.000%	1.000%	N/A
700 – 719	0.000%	0.500%	1.000%	1.250%	1.000%	1.000%	1.000%	1.500%	1.500%	N/A
680 – 699	0.000%	0.500%	1.250%	1.750%	1.500%	1.250%	1.250%	1.500%	1.500%	N/A
660 – 679	0.000%	1.000%	2.250%	2.750%	2.750%	2.250%	2.250%	2.250%	2.250%	N/A
640 – 659	0.500%	1.250%	2.750%	3.000%	3.250%	2.750%	2.750%	2.750%	2.750%	N/A
620 – 639	0.500%	1.500%	3.000%	3.000%	3.250%	3.250%	3.250%	3.500%	3.500%	N/A
< 620 ¹	0.500%	1.500%	3.000%	3.000%	3.250%	3.250%	3.250%	3.750%	3.750%	N/A

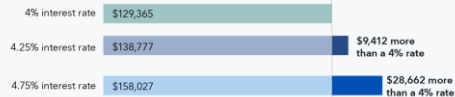
How much will you pay in interest on your mortgage loan?

Based on a 30-year fixed-rate mortgage loan for a \$200,000 home with a 10% down payment

Interest paid in the first 5 years



Interest paid over 30 years



Source: www.consumerfinance.gov/owning-a-home/explore-rates

Fannie Mae Charges Loan Level Price Adjustments. These are estimates of those costs when taking out a Conventional Loan (10/1/2018). These charges are calculated over 30 years.

\$300,000 Loan Amount, 30 Year Fixed, 80%, 85%, 90% or 95% Loan To Value: 699 vs. 740 costs an extra **\$13,000 in Interest Charges.**

\$300,000 Loan, 30 Yr Fx, 80%, 85%, 90% or 95% Loan To Value: 679 vs. 740 costs an extra **\$26,750 in Interest Charges.**

\$300,000 Loan, 30 Year Fixed, 80%, 85%, 90% or 95% Loan To Value: 659 vs. 740 costs an extra **\$40,000 in additional Interest.**

\$300,000 Loan, 30 Year Fixed, 80%, 85%, 90% or 95% Loan To Value: 639 vs. 740 costs over **\$40,000 in additional Interest.**

Even A Small Fico Adjustment is Expensive:

\$300,000 Loan, 30 Year Fixed, 80%, 85%, 90% or 95% Loan To Value: 719 vs. 740 costs an extra **\$12,000 in Interest Charges.**

How can we improve a credit score?

1. **What-if tool to run scenarios on paying down balances or removing accounts**
2. **Pay for Delete Letter**
3. **Goodwill Letter**
4. **Disputes ***** (more on this later)**
5. **Credit Repair professionals**

Note: It is now free to FREEZE your credit scores - this could be a great option if you are not looking to take out credit in the near future.

Re: Account Number XXXX-XXXX-XXXX-XXXX

Dear Collection Manager:

This letter is in response to your **[letter / call / credit report entry]** on **[date]** related to the debt referenced above. I wish to save us both some time and effort by settling this debt.

Please be aware that this is not an acknowledgment or acceptance of the debt, as I have not received any verification of the debt. Nor is this a promise to pay and is not a payment agreement unless you provide a response as detailed below.

I am aware that your company has the ability to report this debt to [the credit bureaus](#) as you deem necessary.

Furthermore, you have the ability to change the listing since you are the information furnisher.

I am willing to pay **[this debt in full / \$XXX as settlement for this debt]** in return for your agreement to remove all information regarding this debt from the credit reporting agencies within ten calendar days of payment.

If you agree to the terms, I will send certified payment in the amount of **\$XXX** payable to **[Collection Agency]** in exchange to have all information related to this debt removed from all of my credit files.

If you accept this offer, you also agree not to discuss the offer with any third-party, excluding the original creditor. If you accept the offer, please prepare a letter on your company letterhead agreeing to the terms. This letter should be signed by an authorized agent of **[Collection Agency]**. The letter will be treated as a contract and subject to the laws of my state.

As granted by the [Fair Debt Collection Practices Act](#), I have the right to dispute this alleged debt. If I do not receive your postmarked response within 15 days, I will withdraw the offer and request full verification of this debt.

Please forward your agreement to the address listed above.

Sincerely,

Your Name

Pay for Delete Letter Example:

This is a great option for any collection accounts that still have a balance on the report.

Has the potential to significantly help the score.

Your Name
Your Address
Your City, State Zip

Goodwill Letter example:

Could potentially get late payments removed, must have extenuating circumstances.

Date

Company Name
Company Address
City, State Zip

Re: [Account Number](#)

To Whom It May Concern:

I've enjoyed being a customer of [Chase Bank](#) since 1995.

Today, I'm writing to request a goodwill adjustment to my credit files.

I was a model customer from the time I received my credit card in 1995 until 2006, when I suffered a medical illness which wrecked my finances and my ability to make timely credit card payments. As a result, I fell behind on my payments by 60 days. Fortunately, I was able to turn my financial situation around and I've been timely with my payments ever since.

I'm preparing to shop for a mortgage and was told those [late payments](#) will keep me from getting the best [interest rate](#). I'm requesting a goodwill adjustment since the payments do not reflect my current payment status. Thank you for your time reading this letter and the consideration you've given my situation.

Sincerely,

Your Name

Remember to briefly state what caused the late payments and mention that you've since mended your ways. Do not copy and paste [goodwill letters](#). The people reading these letters have seen them before and might penalize you if it looks like you just grabbed one from the internet.

What NOT to do...

1. **Pay off collection accounts to a zero balance** - often this will not improve the score, it will simply update the balance of the account to zero. If you have an outstanding balance, you should try to pay for the removal of the account
2. Try to **avoid any credit inquiries** until you know your score is in range for an approval. Inquiries last 90 days can add up, bringing your score down.
3. **Don't get behind** on payments if possible
4. **Refrain from co-signing** on anything you are not 100% confident about being paid on time and willing to add into your debt-to-income ratio
5. Try not to let credit card **balances reach their limit** (try to keep 30% or below)
6. **Don't close an old account** - better to leave it open with a zero balance

Unique Scenarios: Investment Properties

Fannie Mae Guidelines:

Individual collection and non-mortgage charge-off accounts equal to or greater than \$250 and accounts that total more than \$1,000 must be paid in full prior to or at closing.

In a recent scenario this applied to medical as well.



Unique Scenarios: Disputed Accounts

Disputed accounts need to be removed from their disputed status before being able to obtain a mortgage.

(Disputed medical tradelines are an exception)



Unique Scenarios: Inaccuracies

If we can document and prove that an account is inaccurate, it is very likely we can get it removed.

If a credit score does not come in around what the borrower estimates, I will always send them a copy of their credit report for them to review and confirm everything is accurate.

Example: One client was ineligible for a loan due to inaccurate information, we then got it removed and he purchased a home with a VA loan.

Common Misconceptions

Are you out of luck if your spouse has a bad credit score?

- Not necessarily!

Checking and knowing your score hurts it.

- Definitely not! Credit karma as an example is free and non-impactful.

Closing accounts will help your score.

- False. A variety of different types of open accounts, paid on time, helps your score!





Any Questions?

Thank you for coming!

We hope you learned a lot.
Please never hesitate to contact
Rachel or Mike with any credit or
mortgage related questions.

Rachel: 817-733-5495
rachel@rdhloans.com

Mike: 817-832-8452
mporter@rdhloans.com