



HIGHTECHLENDING
THE NEW WORLD OF MORTGAGE BANKING

Shedding Light on **Credit Scoring**

Improve your Score with **Credit Repair**

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What is Credit Scoring?

- The use of statistical models to objectively evaluate all the information available to make a credit decision.
- Use of Credit Bureau Scores to significantly increase the level of predictive power to determine Good Payers from Bad Payers.
- Evaluates Credit Bureau Data differently than an underwriter.

NOTES: Prime A-Paper 640+

Bureau Score, sometimes referred to as a FICO score, is calculated by a system of scorecards, developed for each repository.

- In developing these scorecards, Fair Isaac uses credit data on millions of consumers. Then applies complex mathematical methods to perform extensive research into credit patterns that forecast credit performance.
- Through this process Fair Isaac identifies distinctive credit patterns. Each pattern corresponds to a likelihood that a consumer will make his or her loan payments as agreed in the future.
- The score is based on all the credit-related data in the credit bureau report- NOT just negative data such as missed payments or bankruptcies.
- Fair Isaac observes a very large number of credit report histories of mortgage borrowers to determine which credit report items or a combination of these items are the most predictive of risk.
- Credit Bureau scores do not use race, color, religion, national origin, sex, marital status, or age as predictive characteristics. Occupation and length of time in the present home are also not used in creating a Bureau Score.
- Any information not present in a repository credit file is not used in creating a Credit Bureau Score.



What is Credit Bureau Score?

- A highly specialized score based on the information supplied within a single credit repository. Experian, TransUnion, or Equifax.
- Bureau scores will vary from Bureau to Bureau
- Each bureau utilizes different scoring models.
- Scores weigh and balance varying pieces of information more quickly and precisely than an underwriter.

NOTES:

Credit Bureau Scores range from approximately 375 to 900 points. The higher the score the lower the risk of defaults.

<u>*Score</u>	<u>Range of ODDS</u>	
Below 600	8 to 1	Depends on the mix of loans analyzed ~ good loans to potential bad loans * (Bad loan defined as 90+ days late)
520- 659	26 to 1	
660 –679	38 to 1	
680 –699	55 to 1	
700- 719	123 to 1	
Above 800	1292 to 1	

- The three different models are often referred to as "FICO" scores.
- The scoring models reside at the three credit repositories and are called:
 - Beacon at Equifax (formally CBI)
 - Emperica at TransUnion
 - FICO at Experian (formally TRW)
- The score measures the relative degree of risk a potential borrower represents to the lender or investor.
- The score is calculated at the repository, and is based solely on the data within that repository's individual credit file.
- The repository scorecards use up to 40 different variables to determine the risk score given to a particular consumer for the information stored in that individual repository
- Rarely will one particular item or occurrence on a report accurately determine a consumer's potential level of risk.



Taking Scoring Models *Out* of the Black Box!!

- Reason Codes are listed in the order of Importance.
- Reason Codes show which area of the consumer's credit did not score as high as possible.
- The end user of a credit report can use the four identified reason codes to work with the borrower to eliminate or explain the factors causing credit Issues.

NOTES:

- To understand why a credit report scored the way it did, look at the four reason codes given with each score. See your credit report, page 1.
- The Reason Codes are listed in order of severity, why the report did not score higher, although other factors do contribute
 - The Higher the Percentage, the more weight given by the score:
 - 35% Late Payments, Collections, Bankruptcies.
 - 30% Outstanding Debt
 - 15% Length of Credit History
 - 10% Types of Credit
 - 10% Inquiries (Applications for New Credit)
- The Reason Codes are either a number or letter followed by a brief description.
- The Reason Codes can then be relayed back to the consumer to explain how they can increase their score over time.
- Score factors are less important for higher scoring credit reports as they merely indicate the reasons why the file did not score ever higher.

Significant Credit Data Analyzed by the Credit Scoring Models:



- Past Payment History
 - Includes information from the public records on bankruptcies, foreclosures, tax liens, etc
 - Trade line repayment history
- Outstanding Debt Utilization
- History of credit establishment
- Result of New Credit -Inquiries
- Type of Credit Being Used

NOTES:

- Severity, frequency, and recent delinquencies noted on trade lines are primary indicators of risk.
- With public records, the older records indicate a higher risk than a 30-day late made 3 years ago.
- Similarly, someone who has missed just a couple of payments, in the last 2 months, would be a higher risk than someone with much older more severe delinquency (provided other positive information is subsequently reported to the file.)
- The number of sizable outstanding balances is predictive of risk, as is the proportion of those balances relative to the total credit limits.
- How many trade lines have balances reported close to the high credit balances? Higher balances generally indicate greater risk.
- Look at the "Date Opened" column for an indication of how long credit has been established. Short history could indicate some risk, but only a cause for concern if other negative factors exist.
- The number of inquiries and new account openings in the last year and the length of time since the most recent inquiry are potential indicators for caution. The balance of the file must be considered.
- Scan for the type of trade line on the report -a finance company will negatively impact the score more heavily than a bankcard, travel and entertainment card, oil card, or auto loan. Potentially indicates the consumer's inability to obtain credit from less expensive sources.
- The number of bankcards colors the picture (potential for too much credit).

Example of a Partial Scorecard



- The Consumer's Credit score is determined by:
 - Take the maximum score available, indicated by an* on the following chart
 - Subtract the actual points received from the maximum - the total is the score.
- The Four Reason Codes indicate the areas they failed to get as close to the maximum points as possible.

Notes:

<u>Characteristic</u>	<u>Attribute</u>	<u>Points</u>	
NUMBER OF BANK CARDS	0	15	
	1	22	
	2	30	10
	3	40*	
	4 or more	30	
NUMBER OF MONTHS IN FILE	below 12	12	
	12 to 23	35	40
	24 to 47	60	
	48 or more	75*	
NUMBER OF MONTHS SINCE MOST RECENT BANK CARD OPENING	no bank cards	32	
	Bank card, but no open date.	40	
	0 to 5	20	25
	6 to 11	25	
	12 to 17	30	
	18 to 23	38	
	24 or more	45*	



Too Many Inquiries?

- Impact on the consumer's Score
- Who is running the Reports and Why?
- Difference in inquires
- What the National Association of Mortgage Brokers'

NOTES:

- Inquiries ran for the purpose of marketing by a bank, pre-approved credit solicitations, or for managing existing accounts, are not used to calculate the score.
- Inquiries made by the consumer through a repository are not used to calculate the score.
- Employer-Employee inquiries are not counted in the score. (Brokers should be requiring wholesale partners to run this type of credit check, so as not to impact your personal score due to business practices.
- Only 7 inquires count in the total score for a consumer.
- An inquiry can cost a consumer 2 points to 50 points off their score depending on the other variables in the report. (The avg. is 3 to 35) Be Aware, there is no specific value, Fair Isaac estimates that multiple inquiries contribute less than 5% of the predictive power of a model for a consumer depending on the other information in the credit file.
- All multiple inquiries by auto dealers or mortgage companies made in a 14-day period of time are counted as ONE inquiry. In addition, a 30-day buffer for mortgage or auto inquiries has now been put in place -only inquiries older than 30 days prior to the scoring will impact the score. (These are new changes that were requested by YOUR association, validated by Fair Isaac and implemented by the repositories during the first half of 1998.)
- Your borrowers could still be negatively impacted by quality control inquiries dropping their score below certain benchmark, and increasing their rate or fees, if quality control is done more than 30 days after your initial report. If the score is very close to the threshold for underwriting and pricing the loan, check the reason codes to access the inquiry impact. You may get the lender to make an exception if you can show the quality control inquiry is skewing your score. It is up to the lender to decide what is sufficient risk.



THREE SCORES - All Are Different!!

- Why Don't the Scores at Each Repository Agree?
- Which One Do You Use?
- What if there are significant errors?

NOTES:

- Each repository or bureau has different information reported to it on an individual. Tradelines often report to one or two repositories not all three, thus causing the difference in each repository's, credit score snapshot.
- The fact that three models rank differently does not mean that one or all are wrong, the objective of the model is to rank order by risk based on the information in the individual repository.
- FNMA and FHLMC recommend that you obtain a minimum of two "FICO" scores for every applicant. Prudence will dictate that you order all THREE-repository scores.
- If two scores are received you must use the lowest score for the consumer, if three scores, are received you must use the middle score.
- When there are multiple borrowers on a loan you must use the lowest score as the ... representative number for underwriting purposes.
- Accuracy of data is essential in a credit line.
 - Requires careful review of significant items in the credit file such as:
 - Reported accounts that do not belong to the consumer
 - Derogatory items reported in error
 - If the repository indicates that the disputed item is in fact correct, then the underwriter should use credit score as an accurate indication of risk.
 - If the reporting company indicated that the disputed information in its file is incorrect, the underwriter will have to determine if the information is significant. At that time, the underwriter should disregard the credit score associated with the repository file that had the inaccurate information. If inaccuracies are reported in all three repositories, the credit scores should not be used and the underwriter should rely on the RMCR Report or a "corrected" merged "infile" credit report.



HOW TO CORRECT ERRORS

- Work With the Borrower to Initiate the Process - Repository Investigation Request Forms
- Timing of the Process
- When to rerun a new Credit Score Request

NOTES:

- Changes to correct credit must be made at the repository in order for the information to affect the score.
- Phone number and addresses for the three repositories:

DISPUTES

Equifax Information Services (800) 685-1111 voice
P.O. Box 740240 (770) 375-3450 fax
Atlanta, GA 30374

Experian (formally TRW) (888) 397-3742 voice
P.O. Box 2002 (972) 390-3674 fax
Allen, TX 75013

TransUnion Corporation (800) 888-4213 voice
P.O. Box 1000 (714) 447-6032 fax
Chester, PA 19022

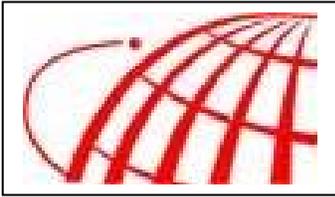
FRAUD VICTIM ASSISTANCE

Equifax (800) 525-6285

Experian (800) 311-4769

TransUnion (800) 680-7289

- The consumer must write a letter of dispute regarding the erroneous information reported by a specific repository to the repository referencing the tradeline, account number, what is incorrect. **Send the letter overnight mail, with a return receipt requested.**
- Under The Fair Credit Reporting Act effective October 1, 1997, a credit repository has 5 days from the receipt of a written investigation request to contact the appropriate credit grantor about investigating the complaint(s) and receive a reply back within 30 days of the original repository notification.
- Within 5 business days after the completion of the investigation, the repository must send a written report to the borrower with its findings (and a copy of the revised report if there were any changes).
 - There is an error and the credit report is corrected.
 - There is no error, so the report stands.
 - The credit grantor(s) did not respond in the allotted time, so the disputed item(s) is dropped from the report.
- Resubmit a new credit report and credit score request.
- Have the consumer send notices of the corrections (s) to the other repositories, if not already done.



Consumer Dispute and Statement

To: _____
(Name or Credit Reporting Firm -Experian, Equifax, Trans Union),

I dispute the completeness and/or accuracy of my credit file as revealed to me on _____.
(Date)

In accordance with Section 611 of the Fair Credit Reporting Act, I hereby request that you reinvestigate and record the current status of the information I have disputed below in paragraph 1. (Include any supporting documents you may have.)

If your reinvestigation does not resolve the dispute, I hereby file the statement below in paragraph 2 which shall be included in any subsequent consumer report containing the information in question.

1. The disputed portion reads: _____

2. I maintain that _____

(This section may be limited to 100 words if the reporting firm assists in writing the summary.)

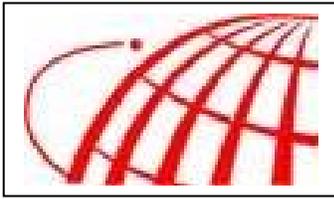
You must completely and accurately complete the following:

(Your Name) _____
(Date)

(Signature)

(Address)

(Social Security Number)



Investigation Request Form

Please complete the following personal information

Name _____

File Number _____

Address _____

Social Security Number _____

Date of Birth _____

Employment _____

Signature _____

Spouse's Information and Signature are required only when both of you are disputing information.

Spouse's Information:

Name _____

Social Security Number _____

Date of Birth _____

Employment _____

If your report changes after our investigation, or if a consumer statement is added, an updated report will be sent to the companies you list below who have received your report in the past 2 years for employment purposes, or in the past 1 year for any other reason:

1. _____
2. _____
3. _____
4. _____

If you disagree with the accuracy or completeness or any other information, please note below. Use the back of this form if necessary.

Company Name: _____

Company Name: _____

Account #: _____

Account #: _____

- Not my account
- In Bankruptcy
- Paid Before Collection/ Charge Off
- Never Paid Late
- Paid In Full

- Not My Account
- In Bankruptcy
- Paid Before Collection/ Charge Off
- Never Paid Late
- Paid In Full

Other _____

Other _____

Company Name: _____

Company Name: _____

Account #: _____

Account #: _____

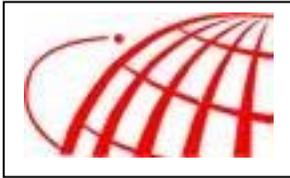
- Not my account
- In Bankruptcy
- Paid Before Collection/ Charge Off
- Never Paid Late
- Paid In Full

- Not My Account
- In Bankruptcy
- Paid Before Collection/ Charge Off
- Never Paid Late
- Paid In Full

Other _____

Other _____

Return this form to the address listed at the end of your credit report. You will receive written notice of the results or our investigation. We recommend that you do not apply for credit while your dispute is pending.



Investigation Request Form (Page 2)

Company Name: _____

Company Name: _____

Account #: _____

Account #: _____

- Not my account
- In Bankruptcy
- Paid Before Collection/ Charge Off
- Never Paid Late
- Paid In Full

- Not My Account
- In Bankruptcy
- Paid Before Collection/ Charge Off
- Never Paid Late
- Paid In Full

Other _____

Other _____

Company Name: _____

Company Name: _____

Account #: _____

Account #: _____

- Not my account
- In Bankruptcy
- Paid Before Collection/ Charge Off
- Never Paid Late
- Paid In Full

- Not My Account
- In Bankruptcy
- Paid Before Collection/ Charge Off
- Never Paid Late
- Paid In Full

Other _____

Other _____

Company Name: _____

Company Name: _____

Account #: _____

Account #: _____

- Not my account
- In Bankruptcy
- Paid Before Collection/ Charge Off
- Never Paid Late
- Paid In Full

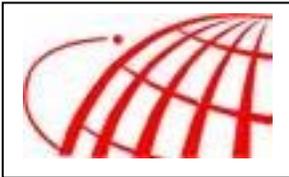
- Not my account
- In Bankruptcy
- Paid Before Collection/ Charge Off
- Never Paid Late
- Paid In Full

Other _____

Other _____

Additional Comments : _____

The procedure we follow to investigate your dispute is to contact the source of the disputed information by mail or telephone. Each source will be advised as to the nature of your dispute and will be requested to verify accuracy and/or completeness of the information they reported. If our investigation does not resolve your dispute, you may add a 100-word explanation statement to your report. If you would like to add a statement, please write on a separate sheet of paper and attach it to this form.



A Summary of Your Rights Under the Fair Credit Reporting Act

The federal Fair Credit Reporting Act (FCRA) is designed to promote accuracy, fairness, and privacy of information in the files of every "consumer-reporting agency" (CRA). Most CRAs are credit bureaus that gather and sell information about you such as if you pay your bills on time or have filed bankruptcy to creditors, employers, landlords, and other businesses. You can find the complete text of the FCRA, 15 U.S.C. §§ 1681-1681u, at the Federal Trade Commission's web site (<http://www.ftc.gov>). The FCRA gives you specific rights, as outlined below. You may have additional rights under state law. You may contact a state or local consumer protection agency or a state attorney general to learn those rights.

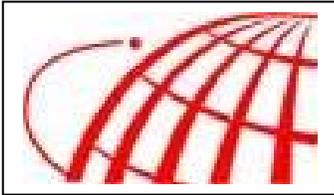
- **You must be told information in your file has been used against you.** Anyone who uses information from a CRA to take action against you such as denying an application for credit, insurance, or employment must tell you, and give you the name, address, and phone number of the CRA that provided the consumer report.

- **You can find out what is in your file.** At your request, a CRA must give you the information in your file, and a list of everyone who has requested it recently. There is no charge for the report if a person has taken action against you because of information supplied by the CRA, if you request the report within 60 days of receiving notice of the action. You also are entitled to one free report every twelve months upon request if you certify that (1) you are unemployed and plan to seek employment within 60 days, (2) you are on welfare, or (3) your report is inaccurate due to fraud. Otherwise, a CRA may charge you up to eight dollars.

- **You can dispute inaccurate information with the CRA.** If you tell a CRA that your file contains inaccurate information, the CRA must investigate the items usually within 30 days) by presenting to its information source all relevant evidence you submit, unless your dispute is frivolous. The source must review your evidence and report its findings to the CRA. (The source also must advise national CRAs to which it has provided the data of any error.) The CRA will give you a written report of the investigation, and copy of your report if the investigation results in any change. If the CRA's investigation does not resolve the dispute, you may add a brief statement to your file. The CRA must normally include a summary of your statement in future reports. If an item is deleted or a dispute statement is filed, you may ask that anyone who has recently received your report be notified of the change.

- **Inaccurate information must be corrected or deleted.** A CRA must remove or correct inaccurate or unverified information from its files, usually within 30 days after you dispute it. However, the CRA is not required to remove accurate data from your file unless it is outdated (as described below) or cannot be verified. If your dispute results in any change to your report, the CRA cannot reinsert into your file a disputed item unless the information source verifies its accuracy and completeness. In addition, the CRA must give you a written notice telling you it has reinserted the item. The notice must include the name, address and phone number of the information source

- **You can dispute inaccurate items with the source of the information.** If you tell anyone, such as a creditor who reports to a CRA, that you dispute an item, they may not then report the information to a CRA without including a notice of your dispute. In addition, once you've notified the source of the error in writing, it may not continue to report the information if it is, in fact, an error.

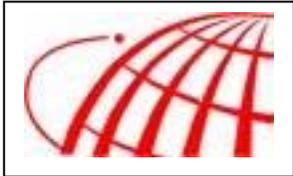


A Summary of Your Rights Under the Fair Credit Reporting Act (Cont.)

- **Outdated information may not be reported.** In most cases, a CRA may not report negative information that is more than seven years old; ten years for bankruptcies.
- **Access to your file is limited.** A CRA may provide information about you only to people with a need recognized by the FCRA, usually to consider an application with a creditor; insurer, employer, landlord, or other business.
- **Your consent is required for reports that are provided to employers, or reports that contain medical information.** A CRA may not give out information about you to your employer, or prospective employer, without your written consent. A CRA may not report medical information about you to creditors, insurers, or employers without your permission.
- **You may choose to include your name on CRA lists for unsolicited credit and insurance offers.** Creditors and insurers may use file information as the basis for sending you unsolicited offers of credit or insurance. Such offers must include a toll-free phone number for you to call if you want your name and address removed from future lists. If you call, you must be kept off the lists for two years. If you request, complete, and return the CRA form provided for this purpose, you must be taken off the lists indefinitely.
- **You may seek damages from violators.** If a CRA, or in some cases a provider of CRA data, violates the FCRA, you may sue them in state or federal court.

The FCRA gives several different federal agencies authority to enforce the FCRA:

FOR QUESTIONS OR CONCERNS REGARDING:	PLEASE CONTACT:
CRAs, creditors and others not listed below	Federal Trade Commission Consumer Response Center – FCRA Washington, DC 20580 Phone: 202-326-3761
National Banks, Federal Branches/ agencies of foreign banks (word “National” or initials “N.A.” appear in or after bank’s name)	Office of the Controller of the Currency Compliance Management, Mail Stop 6-6 Washington, DC 20219 Phone: 800-613-6743
Federal Reserve System member banks (except national banks, and federal branches/ agencies of foreign banks)	Federal reserve Board Division of Consumer & Community Affairs Washington, DC 20551 Phone: 202-452-3693
Savings association and federally chartered savings banks (word “Federal” or initials “F.S.B.” appear in federal institutions name)	Office of Thrift Supervision Consumer Programs Washington, DC 20552 Phone: 800-842-6929
Federal credit unions (word “Federal credit Union” appear in institutions name)	National Credit Union Administration 1775 Duke Street Alexandria, VA 22314 Phon: 703-518-6360
State-chartered banks that are not members of the Federal Reserve System	Federal Deposit Insurance Corporation Division of Compliance & Consumer Affairs Washington, DC 20429 Phone: 800-934-FDIC (3342)
Air, surface, or rail common carriers regulated by former Civil Aeronautics Board or Interstate Commerce Commission	Department of transportation Office of Financial Management Washington, DC 20590 Phone: 202-366-1306
Activities subject to the Packers and Stockyards Act, 1921	Department of Agriculture Office of Deputy Administrator – GIPSA Washington, DC 20250 Phone: 202-720-7051



Your Credit Rights As A Consumer

REVIEWING YOUR CREDIT REPORT

Reviewing and understanding what is in your credit report is one of your most important consumer rights. If you request within 60 days of being denied credit, insurance or employment opportunity or any other benefit, due in part to information found in your credit report, we will provide you with a copy of your report free of charge. There is a fee if you request copies for any other reason. If you have any questions concerning a credit denial, please contact that creditor.

You can receive and review your credit file any business day by applying either in person with reasonable notice and proper identification; or by any other reasonable means available and authorized by you. When appearing in person, you may be asked for written permission to have your credit file discussed in that person's presence.

DISPUTING INCORRECT INFORMATION

If you disagree with any of the information in your credit report, you have the right to request each Bureau to recheck it without cost. It is our responsibility to have the source of the information reverify their records. Likewise, you may submit court papers/schedules of creditors, or any other relevant information you may have to assist in resolving the dispute. We cannot accept canceled checks as proof of account status without further reverification from the creditor. Investigations will be concluded within 30 days of the day we receive your request, and a revised report, reflecting the results of the investigation, will be sent to you within five business days.

Should we be unable to resolve your dispute in the 30 days, or if the disputed information is found to be incorrect, we will send you a revised report indicating that the disputed information has been corrected.

If adverse information has been deleted from your file because it could not be verified and it is later found to be accurate, we will send you a written notice within 5 business days informing you that it has been reinserted into your file.

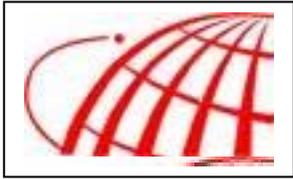
If our investigation has not resolved the dispute, you may add a 100 word explanatory statement to your report. At your request, we will assist you in preparing the statement. If interested, you may also request a description of how the investigation was conducted along with the name, address, and telephone number of anyone contacted for information.

WHO HAS RECEIVED YOUR REPORT

Only companies that have a legally-permitted use for the information can obtain your credit report. The names of those companies that have received your credit report in the past two years are shown in your credit report. If there has been a change in your credit history resulting from our investigation, or if you add a consumer statement, you may request Trans Union to send an updated report to those who received your report, within the last two years for employment purpose, or within the last one year for any other purpose.

MAILING PREFERENCES

Credit reporting companies, such as Trans Union, occasionally give your name to direct marketing companies offering goods and services which would seem of interest to you. If you do not want to receive these mailings, you have the right to deny permission of the use of your name for these purposes. Simply write Trans Union, Consumer Relations Department, Post Office Box 97328 Jackson, MS 39288-7329 or call 1-888-567-8688. Include your name, address, signature, and social security number; your name will be removed from these mailings.



Your Credit Rights As A Consumer (Cont)

UNDERSTANDING “CREDIT REPAIR” CLINICS

Beware of Credit Repair Scams. Many states have laws regulating the practices of companies that claim they can “repair” your negative credit information. No one can have accurate information removed. You may wish to check with your Attorney General, or local consumer protection agency before contacting or paying for credit repair services. If something on your report is incorrect, you can have it corrected at no cost by filling out the enclosed “Investigation Request Form.”

FAIR CREDIT REPORTING ACT

How far back does your credit history go? The Fair Credit Reporting Act allows credit reporting agencies to list negative credit and public record information for 7 years from the date of delinquency, charge-off or placement for collection; or for 10 years from the date of filing chapter 7, 11, 12, or 13 bankruptcy. Our policy is to delete discharged Chapter 13 bankruptcies after 7 years. Paid tax liens are reported for 7 years from the date paid. Unpaid tax liens may be reported for an indefinite period of time.

California Residents

If we investigate the information in your report at your request, you will receive an updated credit report. You will also receive another copy of this notice, to indicate that we have completed our investigation. The results of our investigation will be shown in that report. Items that we cannot verify will not appear in your updated credit report or future reports. If the information is later verified as accurate you will be notified within 5 days that the information has been reinserted. Items that we verify will appear on the updated report with an indication that they were verified, and any items that we change will show those changes on your updated report. You can obtain your credit report at a reasonable fee not exceeding \$8 per credit reporting agency. You also have the right to bring civil action against anyone who improperly gains access to your file or knowingly or willfully misuses file data.



The Proactive Approach:

- **Focus on Methods of Solving the Problems Before They Happen.**
- **Be Responsible & Prudent in Counseling Consumers**
- **Consumer is responsible for His or Her Own Credit**
- **Credit Scores Reflect Payment Patterns**

NOTES:

- Consumers should be in contact with a mortgage broker or lender 90 days in advance of purchasing a home, to run a credit report for examination and correction if necessary.
- Consumers with bankruptcies filed or discharged prior to September 30, 1997 must check their reports carefully for accounts discharged in the bankruptcy being misreported by a tradeline as an open collection account, an unpaid charge off or as past due. (All certainly bearing a negative impact on the consumer's credit score.)
- Consumers should maintain only 4 to 6 credit card accounts, **BUT DON'T ARBITRARILY CLOSE ACCOUNTS WITHOUT REVIEWING THE WHOLE PICTURE!!**
- Consumers may need to reduce the amount of credit extended on tradelines. Approach this very carefully. A consumer's score could be negatively impacted by closing accounts with 0 balances and leaving open only accounts where the maximum limit has almost been reached.
- Paying down revolving credit has a more positive impact on a consumer's credit score than paying down installment debt, when unwritten by automated underwriting.
- They need to send written notices to tradelines when requesting closure of an account, and request confirmation of account closure in writing. **DO NOT arbitrarily close accounts!**
- Consumers need to be responsible in paying their obligations on time.
- Consumers need to refrain from allowing numerous requests about their credit at least 6 months prior to purchasing or refinancing their homes.
- Consumers need to avoid opening and transferring their current balances repeatedly to new cards, "Credit Surfing" for the lowest rate.
- Looking for credit can equate to living on revolving credit, therefore a potentially higher credit risk.



The Impact of a Low Credit Score

- Underwriter Review Requirements by Secondary
 - For different Score Ranges
- Compensating Factors to Offset a Bureau score below 620
- Risk Based Pricing

NOTES:

- Score of 720 or above:
 - The risk is very low.
 - The underwriter must determine that all significant credit information is reflected in the credit score.
 - If not, what impact the missing information would have in relation to the information that has been included.
 - As long as the credit score fairly represents the borrowers credit profile, the underwriter should place much less emphasis on the debt to income ratios in determining the borrower's credit worthiness.
 - No credit or inquiry explanations are required.
- Score of 660 to 719:
 - As long as two scores have been used to determine a "representative score" and no significant data is missing, the risk is low and acceptable to secondary.
 - No credit or inquiry explanation letters are required.
- Score of 620 to 659:
 - Applicants in this category begin to represent a higher degree of default risk, but not so high that compensating factors must be considered to approve the loan.
 - A complete accessing of all aspects of the consumers credit history must be performed. The underwriter can consider the consumer acceptable as long as multiple layers of risk are not present.
- Score of 620 or below: risk for default is statistically very high.
 - The underwriter must look for compensating factors that were not considered in the development of the credit score or extenuating circumstances that can offset the credit risk reflected by the poor credit history.



Impact of Low Scores (Cont)

ADDITIONAL NOTES:

- **Extenuating Circumstances** -When the score is very low due to an extenuating circumstance, the underwriter should disregard the low score and use prudent judgment about the overall risk represented by the application, as long as the following conditions are met:
 - It was an event the applicant had no control over
 - Clearly document hospital bills, correspondence from previous employers, copies of death certificates.
 - The applicant had excellent credit before the event occurred, has reestablished a history of timely payments, for 24 months minimum, and has no more than two 30-day lates during the last 24-month period.
- **Compensating Factors:** factors, which would offset a FICO Bureau score below 620. These represent the limits for using LTV, ratios and/or co-borrower scores to offset 19w FICO scores.
 - A 619 or less FICO for the applicant can be offset by a co-borrower with a FICO of 660 or higher if the CLTV is 80% or less.
 - If the applicant's score is 619 or less, but the applicant has no previous delinquency history and the first score reason code is one that relates to lack of sufficient credit amounts or lack of credit usage. A non-traditional credit report may be developed to offset.
 - If the an applicant's FICO score is between 619 and 585, the underwriter may consider approving the mortgage if the CLTV is 70% or less.
 - If the FICO score is 584 or less the underwriter may consider approving a mortgage that has a term greater than 5 years, if the CLTV is 60% or less, or approving a mortgage that has a term of 15 years or, less, if the CLTV is 70% or less.
- **Risk Based Pricing**
- **FNMA and FHLMC** have developed a policy where Seller Services, our wholesalers, are charged a higher premium for their money when their portfolio sold to secondary contains more than 4% total loans approved with FICO scores at 620 or below.
 - You will have fewer places to submit loans in these categories.
 - The consumer will have fewer loan options.
 - The consumer will have to put down larger down payments and accept higher interest rates.
 - The consumer will be charged the premium fee, the secondary will charge the seller a service fee for the lower FICO score.
- **PMI companies are starting to risk base price** -CMAC has tiered pricing based on score.
- **Homeowner's Insurance companies are now running credit scores** to determine risk to the insured collateral and their payment of premiums based on credit scores.



What is the best loan product?

Based on the Score

- Loan Categories
- Risk Based Pricing Models
- The Internet -Web Based
- Underwriting

Loan Categories

Best Price Options

Alt Pricing

Conventional

Conforming	\$ 333,700 DU / LP
Fannie Mae Fallout	
Jumbo	> \$ 333,700
Expanded Criteria	
Alternative Documentation	
Stated Income	
No Income	
No Income -No Asset Disclosure	

Score Minimums

640
550
640
620
680
700
720
720

As Low As

580
550
640
620
620
620
620
640

FHA

Maximum Loan varies per county

No Agency Minimum
Average Lender Min 550

VA

Maximum Loan \$ 240,000

No Agency Minimum
Average Lender Min 550

Risk Based Pricing Models on the Internet

Fannie Mae

(DO) Desk Top Originator and
(DU) Desk Top Underwriter

Freddie Mac

(LP) Loan Prospector

Lender Based Sites



The Score is affected by Compensating Factors

- Traditional vs. Computer Underwriting
- Risk Based Pricing Models

Compensating Factors

Credit Score

Down Payment

- The more the down, the lower the risk, the better the rate might become.

Reserves

- 2 -3 months for full doc
- 6 months PITI or Income on Stated Income products depending on product

Job Type and History 2 year minimum stability

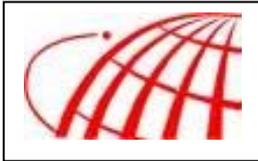
- Education
- White Collar-Advancement possibilities -Bonus -Stock Options
- Blue Collar-Overtime -Bonus

Residence History 2 year minimum stability

- Length
- Rent Payment Shock

Collateral

- Superior Property
- Average Property condition is almost a required minimum no matter what the program.
- Properties with needs may require special fixer programs. Properties with zoning issues may require higher downs
- Properties in the country zoned AG or Rural may require higher downs



California Credit Score Disclosure

In evaluation of your application for a home mortgage loan, one factor your lender will consider is one or more of your credit scores because they assist us in evaluating your credit history in a faster, more objective manner. Your credit scores are found on your credit report, a copy of which was provided to you with this disclosure. The range of possible scores is from 300 to 850. Your lender may also obtain and consider other credit scores in making its decision on your application from the credit bureaus listed below.

In addition to the credit scores, your credit report lists the key factors why your scores were less than the maximum possible score. Please keep in mind that these reasons are provided for factors on which you received less than the maximum score possible. The listings of these factors do not by itself indicate that you would not be approved for the loan you have requested. Your lender considers many factors in addition to your credit scores in making a decision on your application. If your application is not approved, you will receive a separate notice stating the specific reasons for that action which may or may not relate to your credit scores.

Your lender did not calculate your credit scores nor did they develop the scoring models. If you have any questions about your credit scores or the information in the credit report from which the scores were computed, you can contact the credit bureaus at the addresses listed below:

Equifax
P.O. Box 740241
Atlanta, GA 30374
(800) 685-1111
Internet: www.equifax.com

Trans Union
P.O. Box 1000
Chester, PA 19022
(800) 888-4213
www.transunion.com

Experian
P.O. Box 2002
Allen, TX 75013
(888) 397-3742
www.experian.com

Notice to Home Loan Applicant Pursuant to California Civil Code Section 1785.20.2

In connection with your application for a home loan, the lender must disclose to you the score that a credit bureau distributed to users; the lender used this score in connection with your home loan, and the key factors affecting your credit score.

The credit score is a computer-generated summary calculated at the time of the request and based on the information a credit bureau or lender has on file. The scores are based on data about your credit history and payment patterns. Credit scores are important because they are used to assist the lender in determining whether you will obtain a loan. They may also be used to determine what interest rate you may be offered on the mortgage. Credit scores can change over time, depending on your conduct, how your credit history and payment patterns change, and how credit-scoring technologies change.

Because the score is based on information in your credit history, it is very important that you review the credit-related information that is being furnished to make sure it is accurate. Credit records may vary from one company to another.

If you have questions about your credit score or the credit information that is furnished to you, contact the credit bureau at the address and telephone number provided with this notice, or contact the lender if the lender developed or generated the credit score. The credit bureau plays no part in the decision to take any action on the loan application and is unable to provide you with specific reasons for the decisions on a loan application.

If you have any question concerning the terms of the loan, contact the lender.

This certifies that this disclosure, along with a copy of your credit report, has been provided to each applicant/borrower pursuant to California Civil code Section 1785.20.2.

Applicant Signature

Date

Applicant Signature

Date

Loan Officer Signature

Date