

Wise Advice from The Loan Goddess

Credit Reports

As you go through this explanation, you should have your “merged in-file”, also called “tri-merge” or “pre-qualifying” or “preliminary” credit report in hand. Since there are three competing credit repositories, Experian, Trans Union and Equifax, any one or all three of these may have slightly different information. Your Merged In-File report will show which of these companies is reporting by use of a one-letter code. **R** is Experian, **U** is TransUnion, and **Q** is Equifax.

Credit scoring has been around since the 1950's, and credit bureau scores – scores based solely on credit bureau data – became available in the 1980's. It is a statistical method of assessing credit risk, summarizing the likelihood that an individual will repay a loan whether that loan is a credit card or a home mortgage. This credit score is calculated from a scorecard driven by credit related variables like the number of open accounts, types of accounts, past delinquencies, severity of delinquencies, length of credit history, etc. The score is based on all the credit-related data in the report – not just negative data such as missed payments or bankruptcies. Your credit score is similar to the SAT – Standard Academic Achievement scores will get you into college, or keep you out. In the SAT's, 800+ is a perfect score. Anything above 680 is an “A”. Some lenders give pricing premiums to borrowers whose scores are above 700, or above 740. Many lenders, especially second trust deed, or equity line lenders, will simply deny any application submitted with a FICO score below 680. Equifax refers to their score as the Beacon score, Trans Union as the Empirica score, and Experian as the FICO score. However, it should be noted that all of these scores are based on the model created by Fair Isaac & Company. Up to four reason codes/descriptions are always printed to explain a credit score. They are printed in the order of their importance in calculating your FICO score:

- Derogatory Items:
- Any account information highlighted in gray is late, delinquent, or otherwise derogatory. There are four levels of badness: 30 days late, 60 days late, 90 days late, or write-off. You should go after the vendors for any and all of these items.
- Public Records:
- This section contains tax liens, civil judgments, and bankruptcies. These items weigh heavily, especially if they are recent, and **especially** if the repositories say they are unpaid.
- Length of Credit History: If all of your cards or accounts are new, your FICO score will be pretty low. They like to see 10 years or more, 2 years is just sufficient.
- Proportion of Balances to Limits: FICO scores are lower for people who spend all the way up to their credit limits. This can be improved immediately with a call to your credit card issuer. Ask them to increase your credit limit - take it as high as possible. The higher the limit, the lower the proportion. Your score improves, and you didn't even have to pay anything off.
- Inquiries: Whenever you shop for a car, or furniture, or any items you might want to buy on credit, the store will run a credit report on you. These inquiries lower your FICO score as much as 5 points, so during the mortgage process, guard your social security number and credit checks very carefully.

Most lenders take the middle score - throwing out the lowest and highest - to determine your interest rate, how much you have to put down, and ultimately whether you can get a particular loan product at all.

© CGTripp Enterprises, Inc.

✦ www.cgtrippenterprises.com ✉ cgtripp@sbcglobal.net

5214-F Diamond Heights Boulevard #116, San Francisco, CA 94131-2175