



Credit Scores Credit Scores

What Are They and Their Increasing Importance to Lenders

If you have been in the market for a mortgage loan recently, whether to purchase, refinance or obtain a home equity line, you have most likely heard a new term in the mortgage lingo: credit score. What is a credit score? And why is knowing about credit score important to you?

What Is A Credit Score?

A credit score is a number, ranging from the high-300's to the mid-800's, which is developed from information contained in your electronic credit files maintained by the three private credit repositories: Equifax, Trans Union, and Experian. It is commonly referred to as a "FICO" score, because the scoring model widely used by lenders was developed by the Fair, Isaac & Co. Your credit score represents your credit risk- how likely you are to repay a loan.

How Is My Credit Score Derived?

All of the information in your credit file is analyzed. Your score is then calculated, based on many factors, some of which are:

- ✘ Your Credit Payment History (Have you been late with payments? Frequently? Recently?); mortgage rates have a more serious affect on your score.
- ✘ How You Utilize Your Available Credit (Have you maxed out your credit cards?)
- ✘ The Number Of Recent Credit Inquiries (Are you incurring more debt?)
- ✘ The Types Of Credit You Use (do you have a lot of finance company accounts?)
- ✘ Legal Items Filed Against You (judgments, liens, bankruptcy, foreclosure)
- ✘ Length Of Credit History

The scoring model considers each of these variables, weighs each factor according to a formula, and them ultimately yields a single composite score.

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According to Fair, Isaac & Co., the two most heavily weighted factors are past payment history and credit utilization. The factors of age, race, gender, religion, national origin, marital status, employment, income and where you live are not evaluated. Although Fair, Isaac & Co. provide data to support the validity of their scores, scoring models are proprietary and they do not publicly release information about exactly how the formulas work.

Is Credit Scoring New?

Credit scoring has actually been around since the mid- 1950's, used for approving credit cards and auto loans. However, it is only in the past three years that credit scoring has been used by mortgage lenders, so most consumers are not aware of it.

Why Are Mortgage Lenders Using Credit Scores?



Mortgage lenders believe that credit scoring accurately assesses credit risk and predicts loan performance: higher scores represent a greater likelihood of repayment and lower scores represent a greater risk of delinquency. This belief is sustained by an analysis performed in 1996 by economists at the Federal Reserve Board of the correlation between credit scores and loan performance. Additionally, investors who purchase mortgage loans have also endorsed the use of credit scoring: they now price loans (determine the interest rate) based, in part, on credit scores. Since the three private credit repositories (Equifax, Trans Union, and Experian) each have their own credit scoring model, and consequently give their own individual credit score to your credit file, lenders typically use the middle of the three scores when underwriting your loan.

What Is A "Good" Credit Score?

Credit scores are broken down into three ranges: a score of 680 and above is considered a low-risk borrower, a score of 620-680 is considered medium risk; and a score of less than 620 is considered high-risk. In the medium-risk range, other factors, such as loan-to-value and debt ratios, are taken seriously into consideration by the mortgage underwriter. So, if a person has a 625 credit score, but has a low loan-to-value and debt ratios, he/she is looked at more favorably.



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Why Should I Care About Having A High Credit Score?

The primary reason is that your credit score is major factor in determining the interest rate you will pay for a loan. Borrowers with a low credit score (high-risk) are given higher interest rates than borrowers with a high credit score (low-risk). Almost every lender now uses credit scoring as a factor in pricing loans.

How Do I Find Out What My Credit Score Is?

You can contact each of the three private repositories for a copy of your credit file, which includes their individual credit score: Equifax @ 800-685-1111; Trans Union @ 800-916-8800; Experian @ 800-682-7654; or call *Pacific Sunrise Mortgage* at 951-276-1800.

How Can I Improve My Credit Score?

First, and foremost, review your credit file from each of the three private repositories for accuracy, and begin immediately to correct errors. Then, according to Fair, Isaac & Co., the three key things to remember are to pay your bills on time, keep credit card balances low, and apply for new credit sparingly. All of these things will make you a good credit risk and produce a high credit score.

If you're considering Purchasing a new home or Refinancing your existing home, call PACIFIC SUNRISE MORTGAGE. We have a vast amount of loan programs to fit the needs of most homeowners. Among these are: Zero Down, Alt Doc, FHA, VA, Second Trust Deeds, Various Conventional ARMS and Fixed Rate Programs. All in all, we have over 226 different loan programs!

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