

On the Home Front

Bi-monthly column by: Linda Skolnick

Are you Mortgage Worthy?

You may have graduated College with top honors, but a high GPA won't help you get a mortgage. The only grades taken into account when obtaining a mortgage are FICO scores, which are based on a scoring system developed by Fair, Isaac & Company, a San Rafael, California company that pioneered the ever changing formula used to calculate credit scores.

So, what exactly are credit scores, and how will they affect you?

First you should know that FICO scores are not only used when obtaining a mortgage. They are also considered when financing other purchases and in car loans. According to Michael Daversa, owner of Atlantic National Mortgage in Westport, "The idea behind the credit scoring formula is that it rewards you for successful management of credit."

"Consumers have long been able to obtain their own copies of their credit reports from the three national credit reporting agencies – Equifax, Trans Union and Experian, but until recently they could not find out the most important factor, their FICO score. Recently, Equifax began making its credit scores available to potential borrowers, and the other agencies are expected to follow suit in the near future," says Daversa. That standardized score gives lenders a reliable estimate of the risk associated with a potential borrower's application for credit.

According to Jeanne Kelly, owner of The Kelly Group, a company that specializes in clearing up credit problems, "FICO scores are weighted by five basic components."

"Your **Payment History** is of utmost importance," reminds Daversa. "It makes up 35% of your total FICO score."

"The second factor to weight is "**Balance to Credit Line Ratio**", which accounts for 30% of the score makeup," says Kelly. "Generally, it's good to keep your balances at or below 25 percent of your credit limit."

"**Length of Credit History** accounts for 15% of the score. This factor takes into account how long a person's credit accounts have been established (the longer the better) and how long it has been since certain accounts have been used," explains Daversa.

"**Type of Credit Use** and **New Credit** each account for 10% of the score. In addition to looking at the type and the number of credit accounts a person has, the FICO formula

also looks at how many of these accounts have been recently opened. Included in this factor are also how many times “credit inquiries” have been made by potential lenders. A large number of inquiries can indicate that a person is searching around for more credit, a factor that can present more risk to a lender,” says Daversa.

Okay, so now that we understand how credit scores are weighted, what is a good credit score and what isn't?

700 and above: Excellent. You'll be able to have the best rates at your disposal.

680-699: Good. Lenders will be favorable, but make an effort to improve scores further.

620-679: Slightly below average. The lower your score falls in the range, the more collateral lenders will require and the higher the rate you may be offered.

580-619: Sub-prime. You will have to put more down and pay far higher interest rates than most borrowers.

Below 580: Poor. Those who fall in this category may be subject to predatory lending practices such as “pay day” advances.

Michael Daversa of Atlantic National Mortgage recalls, “There are two reasons to get your score from all three bureaus. First, each bureau may have slightly different information about you depending on which companies have reported to them on your accounts (reporting is not mandatory and many companies will report more regularly to the bureau based in their region). Second, mortgage lenders often look at all three of the bureaus FICO scores and take the middle score (not the average) to assess your eligibility. So, it's in your interest to know what that middle score is and make it the best it can be.”

“Grades mean everything. But, don't worry, if your scores are not up to par, it's not too late. Read my next article in *The Westport News* on Friday, March 22 to learn ways to improve your scores.

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