CREDIT FOR SUCCESS
TODAY'S NEW RISK FACTORS

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MOBILE BANKING

- We have become a social media society that wants information, services and conveniences NOW.
- * Current mobile growth beyond 10% per year will overtake the web in online banking.
  * Mobile websites are the new delivery of commerce.
- But what about security?
- * Never use public Wi-Fi, and opt for 3G or 4G connectivity
- * Only choose financial apps from your bank's website
- *Don't text important banking or personal identity
- information-it's unsecure.
- * Install mobile anti-virus software.

The new Consumer Financial Protection Act, the "ATR Rule" (Ability to Repay Rule)

- * Lenders must determine, verify and evaluate greater scrutiny towards credit worthiness.
- * Debts and Underwriting analyses and DTI calculations must be independently verified.
- *QRMs, Qualified Residential Mortgages - lenders will have to meet bank capital requirements "skin in the game" on transactions that are not QRM.
- * Lenders use third party sources like Intertinx and TheWorkNumber to gather more in-depth consumer profile information

Short Sales

As per FICO, a Short Sale Seller's Credit is affected as follows:
- 30 days late: 40 to 110 points
- 90 days late: 70 to 135 points
- Foreclosure, Short sale or Deed-in-Lieu: 85 to 160 points
- Bankruptcy: 130 to 240 points

However, there are many variations as to how your credit can be reported. This can dramatically affect you credit rating.
- 30, 60, 60, 120, 150, 180
- 30, 60, 90,120, 120, 120, 120 ,120 ,120
- 120, 120, 120, 120, 120, 120
- 30, 60, 60, 120, Foreclosure Action Initiated
- 30, 60, 90, 120, Foreclosure
- 30, 60, 90, 120, Foreclosure, Short Sale
- 120, 120, 120, 120, Settled for Less Than Full Balance
- 30, 60, 90, 120, Settled in Full, Paid as Agreed

Falsifying Credit Reports

Borrowers and Fraudsters attempt to create false credit history for appearance of "Credit Worthiness".
* Credit may have been issued using false or stolen social security number.
* Possible inconsistent information on credit report.
* Altered account information (cut & paste)
* Multiple reported disputes may deter Fannie Mae & Freddie Mac and FHA underwriting criteria.

May use credit repair services for legitimate inaccurate credit discrepancies. and misreported account status.
* Failure to report loan, closed account, and public record full payments and satisfactions.
* Misreported account activity.
* Incomplete and inaccurate account history.

I. The Development of the FICO score for credit reporting

- 1958 Development of Credit Scoring System by Fair Isaac Corporation (**FICO**) *is the acronym for Fair Isaac Corporation.*
- *1981 Introduction of the FICO Credit Bureau Scores.*
- The three major credit bureaus Experian, Equifax and TransUnion incorporate the FICO scoring model for their credit reporting.
- Fannie Mae and Freddie Mac influenced the secondary market by instituting uniform and standardized credit score guidelines for all lenders and consumers throughout the US.
- Afterward, the major credit bureaus developed their own scoring models for other credit and marketing applications (Equifax - Beacon Score, TransUnion – Empirica Score, Experian – Fair Isaac Score, plus they now collectively offer the Vantage score).

A. The reasoning and purpose of the credit reporting system.

- To help creditors improve their judgment of past consumer credit behavior as the basis of judging new consumers.
- Develop highly effective statistical models of payment information from past customers to predict consumer credit behavior and default probabilities.
- Incorporate a point measuring and scoring system to minimize the human errors associated with intuitive and bias decisions as the major factor for credit approval.

B. The purpose of its measure.

- Credit bureaus continually collect personal financial data on individuals, in order to measure their most current credit profile.
- Information is made available on request for lenders and varying creditors for the purpose of assessing credit worthiness and ability to repay debt.
- Historical information and credit performance establish a consumer's credit rating which helps creditors determine risk.
- The credit rating is interpreted through a credit score (300-850).
- Measured risk levels help a creditor in determining interest rates (risk-based pricing) for consumer.

C. The Credit Bureaus power of information.

- Credit Bureaus, also known as Credit Reporting Agencies store giant data bases of consumer and business credit activities and profiles.
- Credit Bureaus sell information, analytical decision making solutions, modeling & scoring services, prospecting and marketing solutions to multiple industries.
- Credit Bureaus maintain credit information on over 225 million consumers.
- Credit Bureaus sell credit reports that contain (4) four types of profiled information.

- **Identifying Information** – Your full name, current and previous addresses, social security number, date of birth, current and past employers, job title and any known aliases.
- **Credit Information** – Accounts you have with banks, retailers, credit-card issuers, utility companies and other credit providers. Accounts are listed as mortgage loans, installment loans, auto loans, student loans, revolving credit, and lines of credit. Plus account information such as date account opened, date account closed, last activity, loan amount or credit limit, current and past balances, co-signers and payment patterns for the past two years and longer.
- **Public record Information** – Federal, State and County court records on bankruptcy, tax liens or monetary judgments.
- **Recent inquires** – Names of those who have obtained copies of your credit information within the past 2 years.

D. Why most lenders, creditors, auto dealers, insurers, employers and landlord measure credit scores.

- Lenders, Banks and credit card companies, use credit scores to evaluate potential risk in lending, and to mitigate potential losses due to bad debt.
- Lenders also use credit scoring as part of their qualifying criteria to determine interest rates and credit limits.
- Auto dealerships tend to offer more attractive financing and incentives to individuals who have a good credit history, especially if the consumer has a good history of auto financing.

- Based on good credit history, Insurance companies use credit scores to discount automobile and homeowners insurance rates. Rates are tiered according to credit scores. Also, in general, insurers feel that a person with good credit history is less likely to file automobile or homeowners insurance claims.
- Employers are allowed to view your credit report for hiring and promoting purposes. In general, employers use credit reports to serve as a general indicator of an applicant's financial stability .

  However, in job specific positions where good credit history is reflective of their job responsibilities (accountant, corporate executive, sales manager, etc.), less than perfect credit can contribute to refusal or demotion of employment.
- Landlords and rental agents will typically not accept a new tenant if they have low credit scores with recent and continual negative credit patterns. This portrays financial instability and unacceptable risk levels.

II. Understanding Credit Scoring

A. The importance of a FICO score.

- In today's economy, all banks, creditors, insurers, employers, and realtors use credit scores as an influential part of their credit decision. The FICO score model is the most established and most popular for Lenders and Banks.
- All lenders and participants of the secondary market, rely on FICO Scores for consistency and accuracy above all other scoring models, because they provide the most accurate guide to future risk, based on credit report data.

B. What drive a credit score.

- The credit report data held by the credit bureaus defines and creates the score. Scores are typically between 300 and 850. The higher the FICO score, the lower the risk level.
- The information that drives the score up or down is influenced by positive and negative information in (5) major categories: Payment History, Amounts Owed, Length of Credit History, New Credit, and Types of Credit Used.

C. How and why your score can vary so much .

- The level of importance in any or all of the (5) categories as compared to general population groups, can be of greater or lesser influence to the score.
- Data on credit reports issued by credit reporting agencies can vary day by day according to the most currently updated information.
- The accuracy and completeness of reported information, is often dependent upon the data source and supplier of information to the credit reporting agencies.

D. What's considered a good credit score and why.

- Credit scores are used as part of a lender's qualifying criteria. Different credit score tier levels define risk based interest rate pricing and approval.
- A 720 and above score is generally recognized as a good credit score by most mortgage lenders and credit card issuers because it represents the lowest level of default or late repayment history.
- A 620-640 score is the minimum credit score required for FHA, and prime conventional loan approval as set by Fannie Mae and Freddie Mac guidelines. Limitations can still apply.
- Lower credit scores can meet sub-prime lender approvals, but at higher interest rates and with greater limitations to loan amounts and terms.

III. The importance of your identifying profile information.

A. **Setting the record straight on ID.**

- It's important to consistently use the same identifying information on all bank, credit, employment and all other applications.
- The (4) most important identifying categories are your Name, Address, Date of Birth and Social Security Number.
- Upon getting married or divorced, it's important to immediately make any changes or additions to you name and address.
- Update any information that is inaccurate, incomplete or outdated on your credit report, including current employer and AKA alias.

B. Keeping your own identity.

- Other than a married couple obtaining a joint account such as a mortgage, it is preferable that all individuals establish and maintain their own credit, even if they are married.
- Individualized accounts also separate the other party from any obligations, repayment and derogatory reporting.
- Co-signing can help another party establish credit however, if they do not pay timely, their derogatory payment history appears on your credit report, because you are a co-obligator for repayment.

IV. THE FIVE DEFINING CATAGORIES THAT DRIVE YOUR CREDIT

A. Qualifying credit categories.

- **Payment History – 35% of your FICO score is based on this category.**

  Consistent and timely repayment positively affects your credit score. Derogatory monthly payment history, charge-offs, collections, repossessions, and foreclosures, can limit or deny you financing approval. Additionally, tax and civil liens plus bankruptcy greatly impact your score.

- **Amounts Owed – 30% of your FICO score is based on this category.**

  Maintaining lower balances on revolving credit demonstrates financial stability and capacity to repay debt. High or excessive balances on revolving debt and or numerous installment loans can lower your credit score.
- **Length of Credit History – 15% of your FICO score is based on this category.**

  Established credit at least (2) years old, preferably 4 years old and longer supports good credit standing.

- **New Credit – 10% of your FICO score is based on this category.**

All new accounts are in a probationary period for the first (3-6) months, until a positive repayment history has been established.

- **Types of Credit Used – 10% of your FICO score is based on this category.**

A diverse mix of credit such as bank revolving credit cards and installment loans (student loan, auto loan, mortgage loan, equity loan) represent a person's ability to repay a mix of fixed and variable debt.

V. INNACURACIES, PUBLIC RECORDS AND INDETITY THEFT

A. Clearing issues that can prevent you from moving forward.

- It is estimated that 79% of all credit reports contain inaccurate, incomplete, misleading, unverifiable or outdated information. This is due to errors in data reporting from different sources (smaller credit bureaus, collection companies, public data from third parties, obsolete records or fraud).
- Inaccuracies, regardless of positive credit history can unfavorably skew a credit profile.

- Public Records such as Tax Liens, Civil Liens and Bankruptcies should be identified and resolved as they will most likely prevent you from securing a mortgage or other credit.
- Fraudulent applications and usage of credit through Identity Theft has become the major concern and liability for all lenders, creditors, insurers, employers and federal/state/local agencies.
- Any evidence of Identity Theft should be immediately reported to the local police, creditor and credit bureau.
- Everyone should review their credit report at least twice a year for any inaccurate information or evidence of identity theft.