

# 2 BLUE CHIP CORNER

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## News From 2 Blue Chip Mortgage

### Your Credit Score

#### 01. Overview

Credit scoring is a statistical method of assessing the credit risk of a loan applicant. It uses mathematical models to evaluate a person's credit worthiness bases on their credit history and current credit accounts. The credit score was first invented and developed in the 1950's, but has come into widespread use in just the last two decades.

In the mid 1980's the three major credit bureaus, Equifax, TransUnion and Experian (formerly TRW) all worked with Fair, Isaac and Company (FICO) to develop credit scoring models. These models allow each bureau to offer a score based solely on the contents of the credit bureau's data about a person.

The actual numerical credit score is a number that indicates the likelihood that an individual will pay back a loan. It is typically calculated by reviewing the following parameters.

01. Past payment delinquencies
02. Current level of indebtedness
03. Types of credit accounts currently open
04. Length of credit history
05. Number of credit inquiries
06. How often credit is applied for
07. Other derogatory credit behaviors

Each major credit bureau has its own unique method for calculating credit scores. However, the scoring models have been somewhat normalized so that a

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numerical score at one bureau is roughly the equivalent of the same credit score at another. Therefore, a score of 600 from Equifax indicates the same creditworthiness as a credit score of 600 from TransUnion or Experian, even though the calculations used to determine those scores may be different at each bureau.

Mortgage brokers and lenders frequently use these scores (commonly known as FICO scores) as an important factor in the decision whether or not to offer credit. The higher your credit score the better credit risk you are. Depending on the credit bureau, credit scores range from 375 to 900 points, but those numbers mean little on their own. They only become meaningful within the context of a particular lender's underwriting guidelines.

Nevertheless, because major institutions in the mortgage industry such as the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) have enforced guidelines for lenders based on credit scoring, certain general rules are accepted. So, in general, credit scoring will place a loan applicant in of the following three categories.

#### 02. Credit Score Guidelines

Scoring models like the one developed by FICO have always been shrouded in mystery, especially when it comes to specifics. Generally speaking, though, they utilize your credit history, income, outstanding debt and debt utilization over the years, access to credit, and other indicators of your financial behavior to determine how likely you are to pay your bills on time, or if at all.

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## Your Credit Score (cont'd)

A numerical score is then developed, typically ranging from 300 to 900, with the low end of the scale indicating a poor credit risk. This can tell a lender whether or not he'll lend to you. For example, a credit score of 620 is frequently cited as a "cutoff point" for loans which can be funded by Fannie Mae or Freddie Mae. Below that, and you're usually off into the private "sub-prime" market, where rates are higher.

### 650 and Above

In general, a score of 650 or above indicates a very good credit history. People with these credit scores will usually find the loan process quick and easy, and will have a good chance to obtain a loan at a relatively low rate of interest.

### 620 to 650

Credit scores between 620 and 650 indicate basically good credit, but also suggest to lenders that they should look at the potential borrower to assess particular credit risks. (Average FICO scores fall into this range.) People with scores in this range have a good chance at a loan at a good rate, but may have provide additional documentation and explanations to the lender before the loan is approved. This means that their loan closing may take longer, making their experience more like that of borrowers in the says before credit scoring, when every individual was researched.

### Below 620

A credit score below 620 may prevent a borrower from getting the best interest rates, as they may be considered a greater credit risk—but it does not mean

that mortgage funding can't be found. The process will probably be lengthier and, as noted, the terms of loan less appealing, but often a loan can still be obtained.

### 03. Credit Scoring Models

A typical credit scoring model contains a list of questions and answers. A specific number of points are assigned to each answer. Only information proven to be predictive of future credit performance is used in a model. Below are some examples of what a typical model will (and will not) consider.

Information from your credit application:

- How long you've lived at your current address
- Your current occupation
- Your financial obligations

Information from your credit bureau report:

- Amount of outstanding credit balances
- Amount of credit you are currently using
- Length of time with established credit
- Any late payments

These items are definitely not considered;

- Your race
- Your gender
- Your religion
- Marital status
- Place of birth
- Neighborhood you live in

According to FICO, the breakdown of your credit score is as follows:

- 35% of the credit score is determined by payment histories on your credit accounts, with recent history weighted a bit more heavily than the distant past.
- 30% is based upon the amount of debt you have outstanding with all creditors.
- 15% is produced on the basis of how long you've been a credit user (a longer history is better if you've always made timely payments).

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- 10% is comprised of very recent history, and whether or not you've been actively seeking (and getting) loans or credit lines in the past few months.
- 10% is calculated from the mix of credit you hold, including installment loans, (like car loans), leases, mortgages, credit cards, etc.

Other models being employed are sure to utilize these in various weightings, plus other data that may be added to model. These might include your address or zip code, how often you've moved and other public and private information about you.

#### 04. Credit Report Errors

You should correct any errors on your credit report. It's a good idea to review your credit report from each bureau regularly. If you see an inaccuracy, report it to the credit bureau. The three major credit bureaus in the U.S. are Equifax, TransUnion and Experian. All of these companies have procedures for correcting information promptly.

If you discover incorrect information when applying for a loan, be sure to tell your broker or lender. They should be aware of the fact that erroneous data may lead to a unusable score, and consider that fact when making their decision..

#### 05. Raising Your Credit Score

You can improve your future score, but it is unlikely that any single action you will take will have a large impact on your score immediately. This is because your score reflects your credit patterns over time.

Some things you can do that will improve your credit score in the future:

- ❖ Pay your bills on time. Delinquent payments and collections can have a major negative impact on your score. As they get older and you pay

all other obligations on time, the delinquent information will have less impact.

- ❖ High outstanding debt can affect your score, so pay down any loan balances.
- ❖ Apply for new credit sparingly. Shopping for credit can have an adverse affect on your score.

It is important to realize that there is no single action that will immediately raise your credit score. Each time a credit score is calculated, specific reasons (score factors) are delivered to the lender along with the score. If you've been given your score, you can ask your lender for these reasons.

These factors represent the three major reasons why your credit score was not higher. Anything that you can do to address these factors will most likely improve your score.

#### 06. Finding Out Your Credit Score

Many lenders may tell you your credit score, though others may not. One reason is that many different types of scores are in use, therefore the number by itself might not hold much meaning to you.

A credit bureau score is just a tool that lenders use. By itself it does not tell you if your application for credit will be approved or not. If you find out your score is 610, for example, you also need to know your lender's policy for those borrowers with scores in that range.

Lenders are not required to disclose your credit score, but if you have been turned down for a loan in whole or part because your score was too low, they are required to give you the reasons for the score that you received. These reasons give you valuable information you can use to improve your score.

## Information Needed at Your Loan Application

1. Residence addresses for past 2 years; landlord addresses and phone numbers.
2. Name and address of employers for the past 2 years with W-2's; 1099's etc.
3. Last paystub showing gross monthly salary and deductions for 1 month period.
4. Names, addresses, account numbers, and balances of all credit and savings accounts; with explanation of any large deposit and source of those funds.
5. Last 2 statements of all checking, savings, investments, IRA, etc. accounts.
6. Certificate of eligibility and/or DD214 and/or statement of service for VA loans.
7. Money for appraisal and credit report.
8. If self-employed, 2 years tax returns with all schedules, YTD Profit & Lost Statements, with balances prepared by CPA.
9. If a corporation or partnership, all no. 8 for individuals, corporate and/or partners.
10. Divorce decree and child support information.
11. All bankruptcy documents and discharge papers.
12. Foster care information.
13. Social security award letters; pension award letter for retired individuals.
14. If no credit, we will need alternative credit.
15. Copy of earnest money deposit check and copy of sales contract.
16. Credit explanation letters.
17. Gift letter, if any of the funds comes from a gift from a family member.
18. Other documentation may be needed, depending on lender's requirements.



**Blue-Chip Professionals, LLC**<sup>SM</sup>  
*Providing quality customer service*

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**Providing quality customer service**

2 Blue Chip Professionals, LLC offers powerful training courses which are based on proven techniques and values to ensure success. Our training courses catapult mortgage careers and separate our graduates from their competition. Our instructors average thirteen years as veteran mortgage loan originators, trainers and compliance officers. They have worked with all types of borrowers, loan products and have been top producing loan officers themselves. They have learned through their own experience, training and experience of other mortgage professionals. Whether you are a loan originator, processor, seeking a career change in the mortgage industry, or to broaden your knowledge, 2 Blue Chip Professionals will assist you in achieving your goals.

**Karyn D. Bullock, President**



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**Providing quality customer service**

2 Blue Chip Mortgage is committed to helping you find the right mortgage product for your needs. We understand that every borrower is different, and we offer a variety of products to meet your individual requirements. We make the process of securing a mortgage simple and straightforward by offering you the latest in financial tools that enable you to make sound financial choices.

**Trevor J. Jules, Sr, President**