Understanding Credit and Credit Scores
Sponsored by
Jeff Wood, Homestreet Bank Affinity Lending
and the University of Washington

Presented by
Mike Olden
American Reporting Company
The information presented in this webinar is based on the opinions and research of American Reporting Company, LLC (ARC) and not those of Homestreet Bank or the University of Washington. All examples are hypothetical and are for illustrative purposes only. Our training is not intended and should not be interpreted or relied upon as legal advice. We encourage you to seek legal and compliance advice from a qualified professional. Statistics from FICO® are based on United States consumers. We have done our best to verify all information and to credit all sources of information contained herein.

ARC EXPRESSLY DISCLAIMS ANY AND ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE REGARDING THESE MATERIALS AND OUR TRAINING PROGRAM. IN NO EVENT WILL ARC BE LIABLE FOR ANY DIRECT, INDIRECT, INCIDENTAL, PUNITIVE OR
Agenda

- Credit Reporting Basics
- Credit Score Analysis
- Overcoming Credit Obstacles
- Additional Information and Resources
By the end of this session we will

☑ Have a better understanding of reading a credit report.
☑ Understand the differences between major credit scoring models.
☑ Understand options for credit file security.
☑ Develop strategies to avoid delays when applying for credit.
☑ Feel more confident!
Reading and Modifying Credit Reports
Pre-Credit Checklist

☑ Have you checked your personal credit report?
☑ Do you have any locked or frozen credit bureau files?
☑ Have you “Opted-Out” of unwanted solicitations?
Do I have permission to pull your credit?

COMMUNICATE CLEARLY:
- Explain process.
- Obtain permission to pull credit.

OBTAIN DOCUMENTATION:
- Verbal permission is acceptable
- Written permission is preferred.
- Maintain all communication and documentation.

Set expectations now, avoid confusion later.
What is Credit?

- Credit is the “cost” of money.
- The interest rate we receive to borrow money from lenders.
- Lenders may review our credit file and use our credit scores in underwriting.
<table>
<thead>
<tr>
<th>CREDITOR</th>
<th>DATE REPORTED</th>
<th>DATE OPENED</th>
<th>HIGH CREDIT OR LIMIT</th>
<th>BALANCE</th>
<th>PAST DUE</th>
<th>30</th>
<th>60</th>
<th>90+</th>
<th>STATUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>HOME COMING FUNDING NE</td>
<td>09/17</td>
<td>01/17</td>
<td>$20000</td>
<td>$0</td>
<td>$0</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>PAID</td>
</tr>
<tr>
<td>ACCT000023</td>
<td>08/17</td>
<td></td>
<td>MTG</td>
<td>180</td>
<td>$0</td>
<td></td>
<td></td>
<td></td>
<td>XP/TU/EF</td>
</tr>
<tr>
<td>SECOND MORTGAGE: TRANSFERRED TO ANOTHER LENDER</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HSBC NV</td>
<td>05/17</td>
<td>05/14</td>
<td>$4000</td>
<td>$0</td>
<td>$0</td>
<td>37</td>
<td>0</td>
<td>0</td>
<td>CRCDLOST</td>
</tr>
<tr>
<td>ACCT000011</td>
<td>04/17</td>
<td></td>
<td>REV</td>
<td>$0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>XP/TU/EF</td>
</tr>
<tr>
<td>CREDIT CARD LOST OR STOLEN</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WACHOVIA MORTGAGE CORP</td>
<td>11/13</td>
<td>02/03</td>
<td>$58850</td>
<td>$0</td>
<td>$0</td>
<td>99</td>
<td>0</td>
<td>0</td>
<td>PAID</td>
</tr>
<tr>
<td>ACCT000002</td>
<td>10/13</td>
<td></td>
<td>MTG</td>
<td>360</td>
<td>$0</td>
<td></td>
<td></td>
<td></td>
<td>XP/TU/EF</td>
</tr>
<tr>
<td>TRANSFERRED TO ANOTHER LENDER; CONVENTIONAL REAL ESTATE LOAN, INCLUDING PURCHASE MONEY FIRST; FREDDIE MAC ACCOUNT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WASH MUTUAL/PROVIDIAN</td>
<td>03/17</td>
<td>08/14</td>
<td>$500</td>
<td>$0</td>
<td>$0</td>
<td>31</td>
<td>0</td>
<td>0</td>
<td>PAID</td>
</tr>
<tr>
<td>ACCT000012</td>
<td>01/17</td>
<td></td>
<td>REV</td>
<td>$0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>XP/TU/EF</td>
</tr>
</tbody>
</table>

**Equal Credit Opportunity Act**

**Whose account? Borrower or Co-borrower?**

**Status of the current account**

**Which bureau is reporting the status?**

American Reporting Company
# FICO® Score Reason Codes

<table>
<thead>
<tr>
<th>APPLICANT</th>
<th>CO-APPLICANT</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAME</td>
<td></td>
</tr>
<tr>
<td>STREET ADDRESS</td>
<td></td>
</tr>
<tr>
<td>CITY</td>
<td></td>
</tr>
<tr>
<td>STATE</td>
<td></td>
</tr>
<tr>
<td>ZIP</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>APPLICANT</th>
<th>CO-APPLICANT</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOC_SEC</td>
<td>SOC_SEC</td>
</tr>
<tr>
<td>DOB</td>
<td>DOB</td>
</tr>
<tr>
<td>MARITAL_STATUS</td>
<td>DEPENDENTS</td>
</tr>
<tr>
<td>CURRENT_ADDS</td>
<td>LENGTH</td>
</tr>
<tr>
<td>PREVIOUS_ADDS</td>
<td>LENGTH</td>
</tr>
</tbody>
</table>

**SCORE MODELS**

**EQUIFAX/FICO CLASSIC V5 FACTA - JANET X TESTCASE - 000000003**

<table>
<thead>
<tr>
<th>Reason Code</th>
<th>Reason Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>00040</td>
<td>DEROGATORY PUBLIC RECORD OR COLLECTION FILED</td>
</tr>
<tr>
<td>00010</td>
<td>PROPORTION OF BALANCES TO CREDIT LIMITS IS TOO HIGH ON BANK REVOLVING OR OTHER REVOLVING ACCOUNTS</td>
</tr>
<tr>
<td>00014</td>
<td>LENGTH OF TIME ACCOUNTS HAVE BEEN ESTABLISHED</td>
</tr>
<tr>
<td>00035</td>
<td>INQUIRIES ADVERSELY AFFECTED THE SCORE, BUT NOT SIGNIFICANTLY</td>
</tr>
</tbody>
</table>

**TRANSUNION/FICO CLASSIC (98) - JANET X TESTCASE - 000000003**

<table>
<thead>
<tr>
<th>Reason Code</th>
<th>Reason Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>040</td>
<td>DEROGATORY PUBLIC RECORD OR COLLECTION FILED</td>
</tr>
<tr>
<td>010</td>
<td>PROPORTION OF BALANCES TO CREDIT LIMITS IS TOO HIGH ON BANK REVOLVING OR OTHER REVOLVING ACCOUNTS</td>
</tr>
<tr>
<td>014</td>
<td>LENGTH OF TIME ACCOUNTS HAVE BEEN ESTABLISHED</td>
</tr>
<tr>
<td>020</td>
<td>LENGTH OF TIME SINCE DEROGATORY PUBLIC RECORD OR COLLECTION IS TOO SHORT</td>
</tr>
</tbody>
</table>

**EXPERIAN/FAIR, ISAAC (VER. 2) - JANET X TESTCASE - 000000003**

<table>
<thead>
<tr>
<th>Reason Code</th>
<th>Reason Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>40</td>
<td>DEROGATORY PUBLIC RECORD OR COLLECTION FILED</td>
</tr>
<tr>
<td>10</td>
<td>PROPORTION OF BALANCE TO HIGH CREDIT ON BANK REVOLVING OR ALL REVOLVING ACCOUNTS</td>
</tr>
<tr>
<td>14</td>
<td>LENGTH OF TIME ACCOUNTS HAVE BEEN ESTABLISHED</td>
</tr>
<tr>
<td>33</td>
<td>PROPORTION OF LOAN BALANCES TO LOAN AMOUNTS IS TOO HIGH</td>
</tr>
</tbody>
</table>
Justifying Reason Codes – Why Did I Receive These Scores?

<table>
<thead>
<tr>
<th>CREDITOR</th>
<th>DATE REPORTED</th>
<th>DATE OPENED</th>
<th>HIGH CREDIT OR LIMIT</th>
<th>BALANCE TERMS</th>
<th>PAST DUE</th>
<th>30</th>
<th>60</th>
<th>90+</th>
<th>STATUS SOURCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>BANK OF AMERICA MORTGAGE ACCT000018</td>
<td>11/18</td>
<td>02/16 11/18</td>
<td>$59997 MTG</td>
<td>$50686 180 $659</td>
<td>$0 32 0 0 0</td>
<td>AS AGREED XP/TU/EF</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CONVENTIONAL REAL ESTATE LOAN, INCLUDING PURCHASE MONEY FIRST; FREDDIE MAC ACCOUNT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CITIMORTGAGE INC ACCT000022</td>
<td>10/18</td>
<td>01/17 10/18</td>
<td>$20000 MTG</td>
<td>$18734 UNK $194</td>
<td>$0 13 0 0 0</td>
<td>AS AGREED XP/TU/EF</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SECOND MORTGAGE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HSBC NV ACCT000010</td>
<td>10/18</td>
<td>05/14 10/18</td>
<td>$10000 REV</td>
<td>$10015 MIN $115</td>
<td>$0 41 0 0 0</td>
<td>AS AGREED XP/TU/EF</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GEMB/WALMART ACCT000009</td>
<td>11/18</td>
<td>12/13 11/18</td>
<td>$2700 REV</td>
<td>$1886 MIN $79</td>
<td>$0 59 0 0 0</td>
<td>AS AGREED XP/TU/EF</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Justifying Reason Codes – Why Did I Receive These Scores?

#### COLLECTION ACCOUNTS

<table>
<thead>
<tr>
<th>ECOA</th>
<th>WHOSE</th>
<th>CREDITOR</th>
<th>DATE REPORTED</th>
<th>DATE OPENED</th>
<th>HIGH CREDIT OR LIMIT</th>
<th>BALANCE</th>
<th>PAST DUE</th>
<th>30</th>
<th>60</th>
<th>90+</th>
<th>STATUS</th>
<th>SOURCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>B</td>
<td>N/A</td>
<td>06/16</td>
<td>04/18</td>
<td>$121</td>
<td>$121</td>
<td>$121</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Collection</td>
<td>EF</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ACCT000020</td>
<td>04/16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>B</td>
<td>N/A</td>
<td>04/16</td>
<td>10/16</td>
<td>$28</td>
<td>$28</td>
<td>$28</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Collection</td>
<td>EF</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ACCT000014</td>
<td>02/13</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**ORIGINAL CREDITOR: ORLANDO REGIONA, ASSIGNED ON 10/14**
Disputing Credit Reporting Errors

**Review – Confirm - Dispute**

Consumers can access their personal credit reports through [www.annualcreditreport.com](http://www.annualcreditreport.com) – now available weekly.

Consumers can dispute items online through this portal.

Identify and confirm any credit reporting errors.

Secure documentation for all corrections and deletion of reporting errors.
Credit Lock
• Offered by all bureaus
• Free at Equifax and TransUnion (Experian charges for subscription package)
• May delay the application process.

Credit Freeze
• Offered by all bureaus
• Always FREE-ZE
• May delay the application process.
If you have a frozen or locked files after you have pulled contact each bureau to temporarily remove these so your lender can proceed:

• Equifax: 800-349-9960 [link](https://www.equifax.com/personal/credit-report-services/)

• Experian: 888-397-3742 (Option 2; then Option 2) [link](https://www.experian.com/freeze/center.html)

• Transunion: 888-909-8872 [link](https://www.transunion.com/credit-freeze)

• Additional information from the Federal Trade Commission [link](https://www.consumer.ftc.gov/articles/0497-credit-freeze-faqs)
To eliminate unwanted solicitations during your loan process or anytime, consumers can opt out via mail or phone:

For mail: [www.optoutprescreen.com](http://www.optoutprescreen.com).
For phone calls: [www.donotcall.gov](http://www.donotcall.gov)
Credit Score Analysis
Q: “Why doesn’t my mortgage credit score match my personal credit report score?”
A: There are many credit score models. Let’s identify the scores you received and compare those with your mortgage credit report.

Q: “Another lender already pulled my credit. Do you need to pull it again?”
A: Yes, but if pulled within a specific timeframe, there might not be an additional impact.

Q: “I pay my bills on-time and in-full each month. Why don’t I have an 800+ credit score?”
A: On-time payments are just one factor that impact credit scores. Let’s review your entire report to see what is affecting your scores.

Q: “I am a limited user of credit; what can I do?”
A: There are multiple options for traditional and non-traditional credit. Let’s review together.
Are all credit scores alike?

• Mortgage industry uses FICO® Scores
• Other creditors such as credit cards and auto loans may use different score models such as VantageScore®
• Consumer credit reports may include different score models, for example: www.annualcreditreport.com and Credit Karma
• Newer versions of FICO® Scores will not score paid third-party collections and reduce the impact of medical collections.
FICO® Score Factors

- 30% Amounts Owed
- 10% New Credit
- 15% Length of Credit History
- 35% Payment History
- 10% Credit Mix

Source: FICO®
Minimum Requirements for FICO® Scores

The minimum requirements for establishing a FICO® Score are -

• At least one open account for six months
• At least one undisputed account reported to the credit bureaus in the past six months
• No indication of a ‘deceased’ notation on the account(s)

• For more information please visit https://ficoscore.com/education/
• When consumers apply for a mortgage, all inquiries in the previous 30 days are ignored.

• For FICO® Score V4 and above – multiple automobile, student loan, and mortgage related inquiries that occur within any 45-day period are treated as a single inquiry for scoring.

• For older versions such as FICO® Score V2, there is a 14 day de-duplication window.

• **Within the United States, ‘Soft Hit’ inquiries do not affect FICO® Scores** –
• The only types of inquiries that affect FICO® Scores are consumer-initiated requests for credit. These are “hard hits.”

• Checking your own credit, applying for employment or rent, or account review do not affect your credit scores. These are “soft hits.”

• If an inquiry does impact a FICO® Score, on average it’s typically less than five points.

Source: myfico.com
VantageScore Models – Score Ranges

VantageScore 3.0

300

Deficient

Previous versions of VantageScore

501

Excellent

850

990
### VantageScore 4.0 Credit Score Influencers and Tips

#### Extremely influential
- **TOTAL CREDIT USAGE, BALANCE AND AVAILABLE CREDIT**

#### Highly influential
- **CREDIT MIX AND EXPERIENCE**

#### Moderately influential
- **PAYMENT HISTORY**

#### Less influential
- **AGE OF CREDIT HISTORY**
- **NEW ACCOUNTS**

---

**Consumer Tip**

**TIP:** Focus on keeping revolving balances low, under 30% of credit limits.

**TIP:** It's helpful to maintain a mix of accounts (e.g., credit cards, auto, mortgage) over time to improve your score.

**TIP:** Make sure you pay all bills on time.

**TIP:** Higher scoring consumers have credit open accounts, such as credit cards in good standing for longer periods of time. Don’t close your older accounts.

**TIP:** Don’t open too many new accounts too quickly.
Overcoming Credit Obstacles
Post-Credit Checklist to Avoid Delays

- Are there frozen or locked files on your credit report?
- Are there any accounts currently in a disputed status?
- Are there any Mismatch or Fraud Alerts returned on the credit report?
- Are there any outstanding collections or other negative items on your report?

*Consult with your Homestreet Bank lending officer before taking action.*
Covid-19 and Credit

Reporting that *will not* have a negative impact on FICO® Scores:

- Accounts reported as Current; Deferred; In Forbearance; Affected by Natural or Declared Disaster; Loan Modified.

Reporting that likely *will* have a negative impact on FICO® Scores:

- Accounts reported with Account Status that is worse (more seriously delinquent) than what was reported prior to the disaster.
- Accounts reported with substantially higher balance or amount past due than what was reported prior to the disaster.
- Accounts reported as “Paying Under a Partial Payment Agreement”

*Source: FICO*
Limited user of credit? Where to establish new credit:

- **Banks**
- **Credit Unions**
- **Department Stores**
- **Independent Card Issuers:**
  - Gas Cards
  - Retail
- **Authorized User Accounts**

www.bankrate.com is a good source to search for the best rates on new accounts.
• Extra credit for utility and mobile phone payments.

• 8 million consumers could potentially move into Fair (580-669) or Good (670-739) credit ranges.

• Currently reporting to Experian and may help borrower’s FICO® Scores with non-mortgage lending opportunities.

• https://www.experian.com/consumer-products/score-boost.html
Avoid Credit Repair Scams

Credit Repair or Debt Management companies may:

• Attempt to charge fees before any work is completed.
• Promise or imply to delete legitimate credit items.
• Ask lender for a copy of borrower’s credit report.

These actions may violate the Credit Repair Organizations Act (CROA) or contracts with the credit bureaus. Bureaus can restrict access to lenders who violate this regulation. A better alternative is to refer borrowers to a HUD certified counselor here: [HUD - Housing Counselors List](#)
Additional Information and Resources
• Financial literacy is the key. Take the CFA Credit Score Quiz to check your knowledge. [http://www.creditscorequiz.org/](http://www.creditscorequiz.org/)

• For more information about FICO® Scores go to [www.myfico.com](http://www.myfico.com) or [www.fico.com/education](http://www.fico.com/education).

• For more information about VantageScore® go here: [www.your.vantagescore.com](http://www.your.vantagescore.com)


Questions? Contact Us

**HomeTown Home Loan Benefits**

Jeff Wood  
Senior Loan Officer, Affinity

Direct: 206-264-4262  
Mobile: 206-369-8939  
Jeff.Wood@homestreet.com

**American Reporting Company**

Mike Olden  
VP Sales and Education

Direct: 425-563-1978  
Mobile: 425-890-4985  
mikeo@ARCReports.com