

The New York Times

“Fallout From a Poor Credit Score”

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Published: April 21, 2011

http://www.nytimes.com/2011/04/24/realestate/24mortgages-credit-score.html?_r=1&emc=eta1

If you want to see how quickly you can ruin a great credit score, just skip a [mortgage](#) payment.

Lenders use [credit scores](#) to measure how you handle debt. The number you'll see most often is your [FICO](#) score. It runs from 300 to 850. The major credit reporting bureaus developed a rival, [VantageScore](#), with scores from 501 to 990.

Missed mortgage payments, serious [loan](#) delinquencies, [loan modifications](#), [short sales](#), foreclosures and bankruptcies all drag down credit scores. Because a mortgage is such a big slice of anyone's credit profile, it carries more weight than other loans. Both [FICO](#) and VantageScore have studied and quantified those impacts.

They reached similar conclusions: for people with near-perfect records, a single mortgage payment that's 30 days late reduces a credit score enough to hurt. For anyone, a short sale — selling a home for less than the amount owed — can be almost as destructive as a foreclosure.

In contrast, a loan modification — when the lender approves new loan terms — can have a “very, very minimal” effect, said Sarah Davies, the senior vice president for analytics at VantageScore. In some cases, the borrower's score might drop 10 or 15 points.

With a loan modification, said Joanne Gaskin, the director of global scoring solutions at FICO, “the consumer does not have to go delinquent to get assistance.”

Modification horror stories abound; some borrowers have been told they can't be helped unless they've already missed payments. That doesn't have to be the case, said Josh Zinner, the co-director of the [Neighborhood Economic Development Advocacy Project](#), a [New York City](#) nonprofit company active in foreclosure prevention.

The government-backed [Home Affordable Modification Program](#), known as HAMP, specifically permits modifications for borrowers who can document hardship like a job loss, Mr. Zinner said. “What we advise people in New York to do” he said, “is reach out to a nonprofit loan counselor or to Legal Services in order to get a modification with a servicer.”

It's not a perfect solution — HAMP has been criticized for not helping enough borrowers. There are plenty of paperwork hassles, and points in the process where credit scores are in peril.

Still, because of “some really profound consequences” to bad credit, modification is worth pursuing, he said. Employers increasingly check credit. Housing options may be limited. “Virtually all landlords look at credit,” he said, adding that getting a mortgage can be difficult. [Car loan](#) and credit card costs jump.

In a [study](#) last month, FICO looked at how choices would affect three hypothetical mortgage holders: One with a spotless 780 score; another with a good 720, who may have missed a couple of credit card payments three years ago; a third with a not-great, not-toxic 680, who has sometimes fallen seriously behind on credit cards or a car loan. (Most lenders consider poor credit about 650 and below, Ms. Gaskin said.)

¶30 days late: The gold-plated 780 drops to 670-690, the middling 720 becomes 630-650, and 680 is now 600-620. Effects are most significant for the strongest borrower. “A continued progression is going to have less and less impact on a score,” Ms. Gaskin said.

¶90 days late: This is seriously delinquent, and brings the onetime best borrower down to 650-670, the midlevel one to 610-630, and the weakest to 600-620.

¶Short sale, deed in lieu of foreclosure, or settlement, assuming the balance has been wiped out: The result is just a bit less serious. The 780 score deteriorates to 655-675; 720 to 605-625; 680 to 610-630.

¶Foreclosure, or short sale with a deficiency balance owed: For either, 780 is 620-640; 720 is 570-590; and 680 is 575-595.

At a certain point it might seem as if there was not much difference between bad and worse, but remember that the lower the score, the longer it takes to climb back.

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