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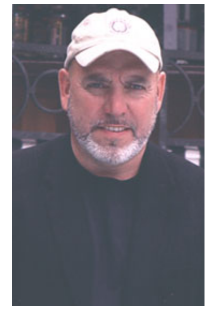

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Ask MAC

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Q What should we, as brokers, do if we miss a FICO score minimum by just a couple of points? Many times, it can be the difference between a good or poor price. More importantly, missing a FICO by just a few points can result in the unavailability of a desperately needed guideline feature of a particular investor, thereby resulting in a loan decline and a lost commission. If that loan is a super jumbo it could mean thousands of dollars in lost revenue to our firm because of 2 or 3 points on a credit score. Do you have any suggestions as to what to do in this case? How do your underwriters handle slightly missed credit score minimums at LUXMAC?

A It has been said that "close only counts in pitching horse shoes and hand grenades. Add credit score minimums at LUXMAC®/Covino & Company to that. At LUXMAC and most other hands-on lenders, we still rely on a personal touch in the underwriting process. Unfortunately, for brokers relying heavily upon investors utilizing automated underwriting systems, a slightly missed score will very often result in a declination. What is even more upsetting is that the score is usually made up of inaccurate information, resulting in a score that is artificially lower than it ought to be. A loan file may be turned down or re-priced, costing the broker tens of thousands of dollars if the loan amount is a super jumbo. What to do? If you are not already familiar with what criteria is used in the logarithms that compute credit scores, I suggest you become so quickly.

Credit inquiries and outstanding debt in relationship to the remaining available credit on a credit card or a credit line all play a part in the scoring process. It is not just derogatory credit and its frequency or tenure that can negatively impact the scoring calculation. If you know what drives a score, you can often quickly and easily manipulate the score by having inaccurate items removed. You can also have your borrower pay off revolving credit items, leaving the account open (closing the account entirely can have an adverse effect on the score by reducing the amount of credit available to the borrower). My main point here is: find out what is driving the score in the wrong direction and, if you can, have it deleted. At least 50% of the credit reports I have seen in my underwriting life have contained inaccurate information. As a result, one could conclude that the scores in those cases were inaccurate. Had I relied solely on those scores for my decision, I would be wrong half the time. Credit scores serve the secondary sales needs of the capital market players such as the rating agencies, bond holders, securitizers, etc.

Many times, credit scores actually provide a disservice to the borrowers and often the brokers and/or processors whose job it is to establish the credit-worthiness of an applicant. When evaluating risk, my staff has been instructed to consider the FICO score only as it pertains to pricing as ultimately, in my opinion, it is not a very strong indicator in predicting the borrower's future ability to make payments in a timely manner. All loan sellers will certainly be affected by the score when selling the loan in the secondary market. Therefore, we encourage our brokers to manage the score whenever possible to the benefit of themselves and the borrower. When we underwrite risk, we give no consideration to the credit score. Instead, we focus on the documentation type and LTV with strong emphasis on the appraisal and the strength of the comparables. We look at the historical credit and the current outstanding obligations. Savings history and assets outside of equity in the home are important factors. We consider the industry that the borrower is in and his/her likelihood of continued success in that chosen field of endeavor to be of equal significance. Finally, the character of the borrower is of relevance. Collateral, credit and character of the borrower, combined with the historical and future ability to meet financial obligations, is more important to us in making an underwriting decision. Add a diversified asset base and you have all the criteria that impact our underwriting decisions more than minimum FICO/credit score levels. When selecting a wholesale lender, be sure to find one that takes a common-sense approach to underwriting and doesn't rely solely on FICO-driven methods.