



THE LAMPPOST

*Mortgage News and
Good Stuff for Life*

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The Five Factors of Credit Scoring

The last article discussed basic facts about credit scoring. The following information from MyFico.com has data regarding the FICO credit scoring model. Consider these five factors when managing your credit.



Payment History has a 35% impact. Paying debt on time and in full has a positive impact, and late payments, judgments and charge-offs have a negative impact.

Outstanding Credit Balances have a 30% impact. Debt ratio of outstanding balance to available credit is important. Keeping that below 50% is wise and below 30% even wiser. It is never a good idea to close an account; the debt ratio will go up and the number of seasoned lines will decrease. Pay outstanding debt down as close to zero as possible and evenly redistribute the remaining balance among the open lines. The increased interest incurred by moving a balance from a 0% card to a 23% card will be minimal relative to what the increased mortgage debt might be with a low credit score. Hitting the maximums of available credit can be very negative. It may be worth calling and asking the credit company to increase your available credit to lower the debt ratio, provided they can do so without a hard credit inquiry.

Length of Credit History has a 15% impact. The length of time a particular credit line has been opened is important. A seasoned borrower is stronger. Opening new credit cards will decrease the average length, and therefore hurt this portion of the score.

Type of Credit has a 10% impact. A mix of auto loans, credit cards and mortgages is positive, rather than a concentration in credit cards only. Be careful, too, when getting credit at a store that is not a depart-

ment store: the credit agencies frown on cards for more specialized stores where you're likely to only make one purchase, as they seem to show desperation.

Inquiries have a 10% impact. Hard inquiries for credit will negatively impact the score. Auto and mortgage inquiries receive special treatment and 20 inquiries can be made in a 14-day period for auto or mortgage and will be treated as only 1 inquiry. The maximum number of inquiries that will reduce the score is 10. Any inquiries beyond that in a six-month period will have no further impact on the borrower. Each hard inquiry can cost 2-50 points on a credit score.

In the near future, there is a joint project between the "Big Three" credit bureaus, Experian, Equifax and TransUnion that will combine their combined information into a new VantageScore system that will revolutionize credit scoring. Although there has been no announcement for a mortgage roll out, the system is being used in test markets for limited banking purposes.



Keep in mind, that although the models may change, the basic principles in scoring won't change much, so it is important to make your payments on time, keep your balances low, keep an established credit history and not close out older accounts, use only a few credit cards and keep credit inquiries to a minimum.

Next issue: How to Improve Your Scores

Adapted from *Why is Your Credit Score Important?*
The question really is, "Why is 'Good' Credit Imperative?"
by Linda Ferrari, President, Credit Resources Corp.

All Grown up and Somewhere to go

“SURPRISE!!” Voices echoed through the house as Amy entered the front door. It was March 25th. Eloise and Amy’s friend, Ashley, had been planning a surprise 18th birthday party for weeks. Amy was thoroughly surprised and delighted to celebrate her birthday with 25 to 30 of her friends.



Early in the morning that day I sat alone in my Archie Bunker chair and reminisced about my little - now grown up girl. I remember the day she was born as if it were yesterday. As Amy was entering the world I remember announcing, “It’s a boy!” a few moments prematurely. Being the expert that I was back then I was just sure from the looks of her head that she was a boy. Then the rest of her came out and the doctor gently corrected me. As I recovered from my embarrassment, I remember holding her in my arms – this tiny bundle, this little beautifully wrapped package. We looked into each others eyes for about 10 minutes. “This

is my flesh and blood!” I remember thinking to myself, “I am responsible for this little being for the rest of her life.” I determined that I would do anything to help her to grow and mature. That day she stole my heart.

Amy’s first Christmas was in a tiny apartment that Eloise and I rented in California. Amy couldn’t quite walk yet, but could pull up and circle the coffee table - thrashing ribbon and wrapping paper. She went crazy for this stuff. She was more interested in that than her presents! She thoroughly investigated everything by first grabbing and then putting it into her mouth.

Another funny memory found us eating lunch in a cafeteria. Amy was not quite a year old and was sitting in a high chair. Eloise and I were talking with another couple and looked over to Amy and found she had fallen asleep, face first into her food!

Amy’s first word was “ball”. We would sit down and spread out our legs into a V and we would roll

the ball back and forth to each other. When she pointed to our toy and blurted, “Baahhlll” a sports loving dad couldn’t have been more proud!

When she was two we had one of our first real challenges with her. Amy had pulled a stack of magazines off of her grandmother’s coffee table - enjoying how they had scattered all over the floor. We told her “No, no” and asked her to put the magazines back on the table. You can guess what then transpired. Two tiny eyebrows knit together, a determined bottom lip stuck out and we were treated to the infamous two letter word, “NO!” After our darling angel traumatized us for 30 minutes we knew this parenting gig wasn’t going to be as easy as we had previously thought.

Fortunately, Amy has grown into a beautiful young woman on the inside and out. As with most parents, we’ve had some bumps along the road – and still do every now and then. But, overall, she is a spiritually mature young woman who places God first in her



life. She has made extremely wise and sometimes difficult decisions about friends and relationships. She is very reliable and responsible. She is cool under pressure. She is exceptionally creative and has a special love for children. She loves to bake cookies or brownies spontaneously (my favorite character trait of hers!). I am so proud of this child.

As I sat in my Archie Bunker chair, I felt truly blessed. Amy has grown into a young woman who has surpassed my hopes and dreams (tears welling up now). As she passes on to her next phase of life I feel confident that my once little baby will continue to grow and mature into a wonderful woman who will bless the lives of many people – especially me.