FICO How your score affects you.

Throughout the years, mortgage rates have varied by loan-to-value and by term only. Items such as mortgages and variation in credit risks were not taken into consideration. A variation in interest rates was typically due to an additional charge for mortgage insurance (PMI) for home loans with loan-to-values greater than 80 percent, or higher rates due to the length of amortization. The exception to this trend became known as sub-prime loans.

Sub-prime lenders are those who specialize in providing loans to borrowers who do not qualify for traditional financing due to credit damage or difficulties in verifying income. These lenders have used a system known as "risk-based" pricing for years. The greater the risk, the higher the interest rate.

A leading credit indicator used for lenders to determine risk-based pricing is the FICO (Fair Isaac Company) Score. Mortgage lenders use FICO Scoring to speed up the loan application process by simplifying the credit review process. In the last two years, Fannie Mae and Freddie Mac have also included FICO Scoring into their credit documentation requirements on prime mortgage loans.

What is a FICO Score?

FICO Scoring is a formula for credit risk assessment which is believed to be highly predictive of the borrowers ability and willingness to repay the loan. The borrower's score is derived by weighing credit information at a snapshot in time and assessing "points" for each piece of information. Information is taken from credit bureau files. The scores are based on credit information only. By law, an applicant's credit worthiness cannot be judged on race, religion, marital status, gender or nationality.

In accordance with Fair Isaac, the information is objective, consistent, and does not discriminate. FICO Scores can, however, fluctuate. Depending on from where the credit collections information is taken and geographical location of the borrower, the information available will differ, which will lead to variations in the scoring.

Computing the FICO Score

The borrower's score is determined by assigning numerical values for certain credit characteristics. The higher the over all score means there is less risk involved for the lender.
Characteristics included in the computation of the score consist of:

- Payment history
- Amounts owed
- Length of credit history
- New credit
- Types of credit use

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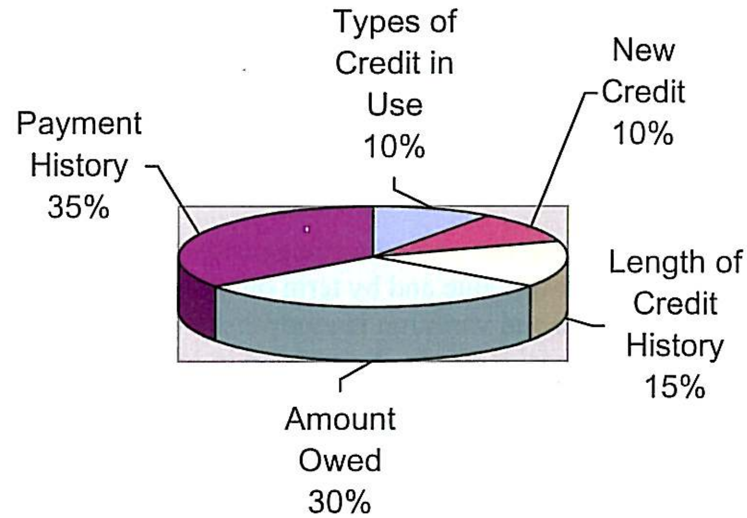
Credit Weighting

Credit usage is the key factor. Each characteristic is weighted according to its "predictive power." The factors with the highest weights are bankruptcies, late payments, collections, judgments, current balances, too few or too many revolving accounts, finance company accounts, number of accounts opened in the past 12 months, and number of credit inquiries made. FICO Scoring looks at a credit patterns over a period of time. No single piece of information of factor alone will determine your score.

A breakdown of the scores from the five characteristics considered are shown in this chart. These percentages are based on the importance of the five categories for the general population.

How Credit is Weighted



Errors

Errors on credit reports may occur for several reasons. In a case of divorce, a buyer's credit may be impacted if their spouse does not maintain payments, even if the court made their spouse responsible for the outstanding debt. If a buyer has a bankruptcy that was discharged there may be outstanding charge-offs or unpaid collections on the report that were in fact were discharged through the bankruptcy. Buyers are encouraged to check their credit reports at least once a year. In the situation where a buyer feels there are errors contained in their credit report, they should contact the credit bureau. A borrower can fill out a credit dispute form and file them with the credit bureau for investigation. They may do so by contacting the appropriate credit agency. The three agencies are listed with their contact information:

Equifax
(800) 685-1111
http://www.equifax.com.

Experian(TRW)
(888) 397-3742
http:/www.experian.com

Trans Union Corp
(800) 916-8800
http://www.tuc.com

Consult Your Agent Before Taking on New Obligations

Every buyer should discuss these issues with their Real Estate professional before they begin the process of looking for a new house. The following are considerations to take, to help ensure higher FICO scores.

- New debt, primarily for major expenditures has a immediate impact on the score.
- Delinquent payments and collections will have less of an effect on the score over a period of time.
- Borrowers should pay down current loan balances.
- Revolving debt has a higher negative impact than installment debt on the score.
- Opening new credit cards to pay off old accounts can increase the FICO Score a great amount.

Minor differences in FICO Scores can increase the interest rate significantly and increase the documentation required by the lender to obtain a loan. Credit scoring has assisted lenders in identifying the risk factor in financing a home for borrower with challenges.

Today there are a wide variety of home loan products which are available to those buyers through alternative lenders. Borrowers with low credit scores are now, more than ever before, able to purchase or refinance homes.