NEWS ON
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THE TREND!

California	
Median Price-SFH	**Date**
$306,230	**04/10**
$301,790	**03/10**
$253,110	**04/09**
Sales change Prior Month –6.4%	
Sales change Prior Year -8.1%	
Sacramento	
Median Price - SFH	**Date**
$191,425	05/10
$188,100	04/10
$180,940	05/09
Sales change Prior Month 18.5%	
Sales change Prior Year –1.1%	
Source C.A.R Research Dept.	

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The Almighty FICO!

The recent trend towards using the magic four letter word in the mortgage industry is becoming all too frustrating to most industry practitioners. In the typical criteria, it use to be that the lenders looked at various aspects of the borrower's financial outlook to aid in deciding whether to lend to an individual. The following criteria were normally used;

- DTI—Debt to Income ratio. For instance, a borrower earning $3,000 a month; most lending scenarios expect the prospect not to exceed $1,200 in debt (this includes all reported debts and the new mortgage).
- LTV—Loan to Value, which calculates how much the borrower will put down as a down payment in a purchase. The best scenario is to put down 20%, in order to avoid paying the lender's insurance to protect them from the prospective borrower's default.
- Loan Amount— The amount the borrower is requesting.

However, nowadays, the exception is to calculate these criteria, the norm is using the FICO score. Even the two companies that currently drive the industry, Fannie and Freddie has specified what is their acceptable minimum score, now 620. But is this number a wholesome number? How about if a borrower whose score is reported by the three credit reporting firms, Experian, TransUnion and Equifax as 620, 619, 605. Unfortunately, this borrower will not get a loan, according to the guidelines of Fannie and Freddie. Remember that currently almost all mortgages are now controlled by these two institutions, and FHA-backed mortgages, as most private lenders have left town.

There are so many problems with the current dispensation in the mortgage industry that consistency in lending is sorely needed, Unfortunately, lenders claim the FICO score lends itself to this goal, albeit poorly. The three companies mentioned above that produces these FICO scores, can differ so widely that it is costing borrowers enormously since most of these lenders will use the lower number in most cases. For instance, with married couples, the lower FICO of the two borrowers is used.

To make matters worst, in situations where a borrower's score is only reported by one company, the other two have no scores, thus zero. Some companies such as CitiMortgage choose the lower of the three scores, zero. That is a decision not to lend.

What about the current foray which started with the credit meltdown, where credit card companies all of a sudden decided to cut back on credit they have already afforded to their clients. This is so impactful, you would wonder who gave these companies the power to be the almighty with individuals future undertakings. One of my clients had his credit card limit reduced from $5,000 to $2,000 with a balance of $1,800. This client who once had a 40% debt utilization, now has a 90% debt utilization, a very precarious number in lending terms. The consequences of this change was over 30 points reduction of his FICO score, enough to drop below the 620 threshold for this client, thus a loan denial.

With several lenders relying on automated underwriting engines, with little human intervention, the use of common attributes that will help borrowers who are maligned by the system is getting more difficult.

With recent movement of employers towards using FICO scores, the reach of this number is expanding enormously. Yes, some employers are beginning to ask propective employees to submit to a consent to have credit reports produced on them before job offers, using a system so imperfect, and full of questionable entries?

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