

Become a 'Credit Concierge' to First-Time Homebuyers



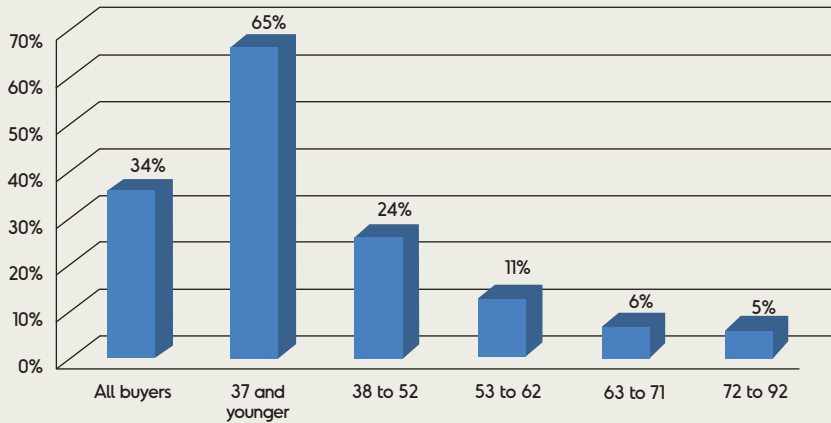
*Prepare Your
Members for a
Better Experience
with Unique
Insight and
Helpful Tactics*



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The First-Time Homebuyer is the focus of many articles and industry events as lenders look to supplement originations in the predicted HELOC environment of 2019. While first-time buyers are found across the generational spectrum, Millennials have quickly become the largest sector of new homebuyers, according to the National Association of Realtors (Figure 1). Millennials should be an excellent target for credit unions looking to lower the average age of their membership, which CUInsight recently reported now stands at 47.

FIGURE 1: First-Time Homebuyers by Age Group



Source: Arch MI calculations using U.S. Census Bureau/Freddie Mac/NAR/Moody's Analytics data, assuming a 10 percent down payment.

The good, the bad, the ugly: the unfortunate truth is that the younger the borrower, the lower the average credit score (Source: Experian, “The State of Credit 2017”).

Not only does a lower credit score typically mean higher interest rates and limitations on qualifying products, it can also reduce potential buying power: the interest rate spread currently averages 1.59% between poor and excellent credit, according to Bankrate.

As payments go up with the interest rate, debt-to-income numbers will be yet another hurdle for new homebuyers.

The average credit score of a Millennial is 638.

— Source: Experian

So, how can credit unions become advocates for their members and create solutions that may translate to higher mortgage loan volume? One of the first steps is knowing your membership to be able to provide assistance where needed at each level.

A good start for a broad understanding of your state is www.experian.com/blogs/ask-experian/state-of-credit/. Since this is an overview of all credit data, not just mortgage, it is important to know about the different credit scores, when they are used and

how to quickly (and accurately) improve a borrower’s score.

The most popular score ranges include:

MODEL	RANGE OF CREDIT SCORES
FICO®	300–850
VantageScore® 2.0	501–990
VantageScore® 3.0	300–850
Experian Plus®	330–830
UltraFICO®	300–850

While each of these models has various uses in the credit industry, the models used throughout the mortgage industry (and approved by Fannie Mae/Freddie Mac) are: Equifax Beacon 5.0, Experian/Fair Isaac Risk Model v2, and TransUnion FICO Risk Score 04.

Did you know? The only types of inquiries that affect FICO® Scores are consumer initiated requests for credit.

Mortgage models are much older versions of FICO scoring models than Credit Karma, which is widely used by consumers.

While credit scores are a major factor in the decisioning process and

typically require a mid-score of 620 or higher, first-time homebuyers will also need to factor in how many credit lines they have on their file to avoid a “thin” file. This will likely mean at least six months of history on at least two active or recent tradelines.

Often these consumers do not have as many credit cards, and use peer-to-peer payments like Google Pay, Apply Pay or Venmo. These payment methods are only one click away with your mobile device, and are linked to a debit card, or direct from a bank account.

Typically, these types of transactions do not contribute to establishing your credit history. Depending on the type of tradelines and their limits, “non-traditional” credit, such as rent, utilities, and insurance may be able to be added manually. While these will not affect the credit score, it will help an underwriter to make a sound decision.

The UltraFICO® Score is a newer program offered by Experian to help address this issue, though it will likely not affect mortgage scores immediately as it is not currently offered by all three industry bureaus and has not been approved by the GSEs.

Inquiries do not do as much harm as you might think: the three major credit bureaus allow for similar inquiries to be grouped together and only affect the consumer’s score once. This is called ‘de-duplication’ and allows between 14-45 days of shopping (depending on credit model used) without additional negative impact. If an inquiry does impact a credit score, on average it is by less than 5 points.

—Source: fico.com

Helping first-time homebuyers create an action plan prior to application is ideal. But what options are available for the applicant that is not quite qualified, or very close to meeting the requirements for a lower interest bracket based on credit score?

Two of the best tools that lenders have available are widely used by mortgage brokers and banks, but are not utilized as often by credit unions are tradeline updates and Rescore.



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Tradeline updates are a cost-effective way to quickly update a borrower's credit information, such as recent payments on credit cards and auto loans, or to verify if a recent payment was made. While these do not update the credit score, they can help with underwriting decisions, especially in a tight debt-to-income ratio situation.

A more costly solution is Rescore, but it does allow for a permanent change to the credit file with a score update. Having a credit partner that is familiar with the bureaus algorithm and reasoning, in addition to guidance and alternative options is a huge asset for your loan officers. The cost of a Rescore is usually offset by an approved mortgage or member satisfaction when they can move to an interest bracket that can potentially save them thousands over the mortgage term.

Letting your members know what is going to happen when their credit report is accessed is critical. Many consumers now have either a credit monitoring service or a credit freeze on their credit reports.

If your member has taken advantage of a credit monitoring service due to a recent data breach, they will get a notification when their credit is pulled. Depending on the type of monitoring service, they could receive a single notification, or three notifications, one

from each bureau when their credit report is pulled by your credit union. They will also receive notifications when a new tradeline is added for their new mortgage loan.

If your consumers have a credit freeze on their file, they will need to unfreeze it prior to the lender pulling credit.

FICO® Score

Minimum Standards: At least one open account for six months.



At least one account updated to the credit bureaus in the past six months.



No indication of deceased status on the credit report.



FICO® Score models include robust, recent information.

So, what should the first-time homebuyer be especially cautious of

before submitting their application? Here are a few tips from the professionals at ARC:

- Review your credit report, either at annualcreditreport.com or with your credit union.
- Continue to make payments on time.
- Avoid consolidating or restructuring loans.
- Talk to your loan professional before changing jobs.
- Stay with the same financial institution, and keep your money in the same accounts, if possible.
- Avoid any large purchases (car, furniture, etc.).
- Be truthful on your loan application.
- Keep balances on revolving debt under 25%. ▲

Crystal Rustad is a Regional Account Executive for the American Reporting Company, a premier credit reporting agency and appraisal management company. American Reporting Company (ARC) has offered clients an array of settlement services since 1986. Recently approved for the full suite of Day 1 Certainty® verification products, ARC is excited to bring educational topics to our changing industry. For more information about ARC, visit <http://www.arcreports.com/>.

