HOUSING SCENE LEW SICHELMAN

A peek at 'what if' can raise credit score

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WASHINGTON – The young couple fell into a trap that ensnares many home buyers: While waiting for their house to be completed, they rushed out and bought a house full of furniture on credit.

They thought they had been approved for a mortgage at the lowest possible rate. But what they didn't realize was, a few days before settlement, their lender would run another credit check just to make sure they were still a safe risk.

Now, when they were about to close on their loan, their credit scores were below the 720 threshold needed to obtain the low rate they had been promised. Now, they were faced with the prospect of paying not only a higher rate, which would mean a larger-than-expected house payment, but also coming up with a larger down payment.

Based solely on the information in your credit report, a credit score is a number that helps lenders predict how likely you are to make your payments on time. The higher your score, the lower your mortgage rate. And for millions of folks, a few points either way can mean the difference between an affordable home loan and one that pinches your wallet so tightly you will have to switch from sirloin to gruel if you want to buy a house.

Enter “if,” as in what would happen to my score if I closed out this account or paid off this car loan? If I paid off this judgment? If I moved all my outstanding card balances to a single card with a lower rate?

Valid questions all, but too often they are put to a loan officer or mortgage broker who hasn't a clue what impact these or other steps might have on the asker's score. Worse, acting on an incorrect response can send a score tumbling, a disastrous step from which it could take months to recover.

Fortunately, there is help in the form of computerized modeling programs known as “what-if” simulators, which allow people to explore the effect certain actions – adding or removing accounts, for example, or correcting errors – could have on your score before actually taking them.

This is not rapid rescoring, which is a quick way of correcting and updating information is your credit files. And it's not so-called credit repair or credit restoration, which is a highly questionable method of removing negative items from your profile, even if they are true, by filing a protest with a credit repository.

(You have a right to question inaccurate, unverifiable or erroneous information. But it is impossible to remove accurate items. They may be lifted for 30 days while the credit bureau investigates your complaint. But once the creditor responds, it will go right back on your record.)

No, this in an interactive way to see how applying for a loan, opening new accounts, missing payments, consolidating debt or transferring balances can affect your credit score. Think of it as a game in which you can change a balance, pay off a collection or delete an account to find out how to improve your score – before you actually take those steps.

Using a simulator, borrowers can “play” with any number of possibilities and combinations until they find a solution that works best for them. And perhaps equally as important, they can stay away from misguided actions that could prove fatal.

The aforementioned young couple used a program called ScoreWizard to scan their credit reports and see recommendations on how to get back to where they started. By implementing the suggestions, they were able to elevate their scores by 99 points for one and 52 points for the other, which was more than enough to qualify for the loan they needed.

ScoreWizard, which also automatically scans credit files for opportunities to raise credit scores, is one of a number of powerful simulators that would-be borrowers can use to test various scenarios. Another is ScoreRight, which uses common assumptions to pose ways to increase your score. A third system, CreditXpert, uses its predictive capabilities so you can safely test any combination of options.

Unfortunately, you can't access these or other what-if calculators directly. Rather, you must go through a mortgage broker or loan officer to use the programs, which are marketed to industry professionals as tools to help them attract and keep clients.

There's nothing wrong with that. After all, a broker or loan rep offering to help borrowers reach their target credit score quickly and effectively is a sign he has your best interests at heart. At the same time, there's nothing to keep you from taking your business elsewhere if you so desire, whenever you so desire. You may lose the $35 to $50 credit-report fee, but otherwise you are free to walk.

Either way, though, these credit-advisory programs can prove valuable to anyone who is searching for the best rate possible. The difference between a 720 score and 580 could be as much as three full percentage points, according to the booklet “Your Credit Score,” which was prepared by the Consumer Federation of America and Fair Isaac, the company that developed the scoring programs used by each of the three major credit repositories – Equifax, TransUnion and Experian.

On a $200,000, 30-year loan, the difference between 6.5 percent and 9.5 percent is an expensive $418 per month, $5,016 a year and $150,480 over the loan's 30-year life.

“These programs are extremely accurate,” says Allen Johnson of Credit Plus in Salisbury, Md., which offers ScoreWizard. “It's the perfect way to save somebody money, whether they need it or not.”

The best way to use the simulators is in conjunction with a knowledgeable loan officer or broker, one who is trained in the often-puzzling intricacies of credit scoring. With a mortgage professional at your side – and watching your back – you can improve your score significantly, often in less than 30 days.

Here are some examples of actual cases in which borrowers used Credit Plus' ScoreWizard to bump up their scores. Note that, sometimes, the steps are counterintuitive. Tactics that appear positive can sometimes result in lower scores. Similarly, maneuvers that would seem to be harmful can actually be helpful:

An applicant needed to raise his score by 20 points to qualify. He had two credit cards, both with zero balances, and four accounts that were past due. Rather than paying down or paying off the accounts that were in collection, which would have resulted in a lower score because scoring programs penalize recent activity on late accounts, ScoreWizard suggested opening a new credit-card account with a $500 credit limit but keeping it at a zero balance. The move raised the borrower's score 61 points.

By running various scenarios, a borrower who needed a lower interest rate to qualify found that by lowering the balances on three revolving (credit card) accounts and removing an authorized user from a credit-card account that has been habitually late, he could raise his score by more than 100 points at one repository and nearly 70 points at another.

Based on the computer's recommendation to reduce "average usage" on several cards, another applicant increased his score by 21 points, which was enough to eliminate the need for a down payment. Average usage is the sum of card balances divided by the sum of the cards' limits. The more you owe compared to your credit limit, the lower your score.

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