



# SCHWARTZ Report

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## WHAT'S THE SCORE?

We're not too far away from the end of spring training which means that the boys of summer will soon be heading north as used to be said. I have a close friend, a very successful Realtor, who is a dyed in the wool Phillies fan. He's not the placid sit and listen to the radio with box score and pencil in hand type. He is the active "dream week" and season ticket variety. His depth of knowledge about the game is amazing. For example, he can tell you who was on base when the Phillies hit the skids in the 1964 National League pennant race losing a six and a half game lead with twelve to play.\* It's been my experience that there are not many baseball question that stump him. He always knows the score. Stick with me folks, I'm going somewhere with this.

He would be the first to tell you that a far more puzzling chore for today's aspiring home buyers is to figure out their score, their credit score. Where does it come from? What does it mean? How is it calculated? A credit score, according to a definition provided by the Federal Trade Commission, is produced by a system that awards points for factors that help predict who is more likely to repay a debt and make their payments on time. The number of points awarded in this evaluation is the credit score. The most commonly used scoring calculation model is FICO. It produces scores ranging from 300 to 850, using software created by the Fair Isaac Corporation which bills itself as a "predictive analytics and decision management company." Fair Isaac has been licensing its software code to the three national credit rating firms, Equifax, Experian and Trans-Union since 1989. FICO scores are pulled for most all forms of consumer lending, up to 90% of credit checks, amounting to 10 billion inquiries a year.

So what's in this credit scoring model or algorithm? Again, according to the Federal Trade Commission, its ingredients

**Average FICO Scores of Approved Loans**

	All Loans	Conventional	FHA
2012	748	763	700
2013	738	759	695
2014	726	755	684
SEPTEMBER 2015	723	755	689

are likely to include grading for the answers to some of the following questions: Have you paid your bills on time; are you maxed out on credit; how long have you had credit; have you applied for credit lately; how many credit accounts do you have; and, what kind of accounts are they? The answers to these and perhaps other undisclosed questions, all blended together in a certain way, yield the credit score. The formula is as secret as that for Coca Cola or Kentucky Fried Chicken.

To most home buyers, particularly first time home buyers, their credit score is the product of a process which, to paraphrase Winston Churchill, is a riddle wrapped in an enigma. Considering all of this mystery, it is not surprising that, according to a recent Fannie Mae survey, 54% of renters say they don't know what credit score is required to buy a home. Those who say they do know think a "good credit score" is somewhere over 780.

The fact is, however, that many mortgages are granted to purchasers with credit scores below 700. For example, according to the November, 2015 Ellie Mae Origination Insight Report the average credit score for a Federal Housing Administration (FHA) insured mortgage was 687 while the average credit score of closed Veterans Administration (VA) loans through November, 2015 was 706. The average credit score for all closed loans was 721. So why is clarity on this issue important?

In 2015, 36% of our buyers were first time home buyers. The year before, that figure was 31%. In 2016 it's not inconceivable that it could be 40%. So it is important to the health of the real estate market in general not to keep these folks out of the market. One way to help them to "open the credit box" is to dispel the myth of the impossibly high credit score. According to the National Association of Realtors Chief

\*My friend Chopper says that Chico Ruiz of the Cincinnati Reds inexplicitly stole home with two outs and a two strike count on right hand batting Frank Robinson.

Economist, Lawrence Yun: "If people cannot make the first step into their starter home, it stops the whole chain reaction for current home owners..." The first time home buyers are the folks whose purchase releases the move up buyer to climb the housing ladder. First timers truly are the rising tide that floats all the boats and are the key to reversing the downward slide of the overall home ownership rate. It fell to 63.5% midway through 2015, the lowest level since 1967. The Mortgage Bankers Association predicts that mortgage rates will average 4.63% by the end of the year up from an average of 4.1% in the first quarter of 2016. Despite that rise, in 75% of the nation's 2,500+ counties, it will continue to be cheaper on a monthly basis to buy the median priced home rather than rent it. Zillow's 2016 Housing Market Predictions puts it this

way: "Rising rents won't let up in 2016, and will continue to set new records. The next year will bring the least affordable median rents ever." Now I'm not suggesting that you don't rent if you want to or have some other compelling reason to do so. What I am suggesting is, for those who want to own their own home, do everything possible to understand your credit situation and understanding your credit score is a good place to start.\*\* So get in the game and know the score!

\*\*Federal law entitles you to a free copy of your credit report annually by each of the three credit bureaus. Go to [www.AnnualCreditReport.com](http://www.AnnualCreditReport.com)

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