

BOND STREET CAPITAL NEWS

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Changing Times

The Capital Markets collapse has caused changes in underwriting not only for the Wall Street Crowd, but for institutional lenders as well. FICO scores are now more critical than ever with minimum scores having been raised substantially in the last 90 days. The following article was provided by a company that has a unique approach to credit repair. This information should help everyone to understand what impacts your credit score.

UNDERSTANDING HOW A FICO SCORE IS DERIVED

Although seemingly complex and often confusing, your credit score is essentially based on five key factors, the first and most important being payment history.

35% of the score is based on how you handle your debt obligations.

- Pay all bills on time and try to avoid getting a tax lien or a judgment entered against you because those also affect your payment history in a negative way.
- Please note that paying a past due balance on a collection or charged-off account does NOT increase your credit score (due to flaws in the credit scoring software) and may even have the opposite effect more times than not. I do not suggest paying these types of accounts or even contacting these creditors when you are planning to apply for a loan in the next six (6) months. Please let me clarify that I am not suggesting that you not pay these accounts, but that you consider waiting until after the loan closes to pay them since it can reduce your score and hurt your chances of getting loan approval. However, since not paying them can lead to a lawsuit being filed or the debt being sold to several collection agencies in the future—both of which will damage your credit even more in the long run—one excellent solution would be to negotiate to pay or settle these accounts either concurrent with the loan closing or shortly after. An alternative would be to settle these types of accounts for deletion with payment if you are able to get the creditor to agree to do so. Just paying a collection with not get it deleted from your credit, it will

Interest Rates

Index	Current Rates
Prime	7.75%
2 Year T	4.048%
5 Year T	4.291%
10 yr. T	4.615%
30 yr. T	4.870%
1 Mo. Libor	5.13%
3 Mo. Libor	5.20%

The Credit Score Conundrum

Just a few short years ago no one in the commercial world even considered FICO scores in their analysis of a borrower. They looked at personal financial statements, liquidity, etc. The FICO score, as a measure, was first introduced by the residential lenders that entered the small balance commercial world. Since these lenders were selling their commercial loans within their residential pools, they provided the familiar FICO score as part of the underwriting. Eventually the FICO became a standard way to evaluate borrowers for most institutions. A bad

only get it to show as a paid collection which still hurts the credit score.

30% of the credit score is derived from your revolving balances carried on accounts as they pertain to your debt utilization ratio.

- Revolving credit cards make up a very significant portion of what ultimately determines your credit score. Your total revolving credit utilization ratio is calculated as follows: $(\frac{\text{Total Open Revolving Credit Card Debt}}{\text{Total Open Revolving Credit Card Limits}}) \times 100 = \text{Credit Card Utilization Ratio}$.

- Having a 0% debt ratio is ideal, so you want to keep your credit card balances as low as possible to maximize your credit score. **If you are able to do so, you should pay off or pay down your credit balances to enhance your score. But whatever you do, never close your credit cards, just pay them as close to zero as possible; don't close them.**

- If you are not able to pay off your credit cards there are still steps you can take to improve your credit scores. First and foremost, I suggest restructuring your credit card balances whenever you are carrying revolving credit card debt you can't pay to zero. Given the way that the scoring engine treats the accounts individually, **spreading your debt evenly across all cards will appreciably boost your credit score.**

Revolving account debt ratio is 30% of the score

The remaining three factors that determine your credit score also offer you opportunities to enhance your credit score even further. Those factors are:

- **15% of the score is derived from the average length of time you have had the credit.** The longer an account has been open, the better. Never close a credit card account; leave it open with a zero balance. You actually reduce your score by closing older accounts as your average account age will not increase in the future as quickly.

- **10% of the score is derived from the mixture of credit you have on your credit report.** To maximize this area you want to have one mortgage, one car loan, and a few credit cards. The magic number of credit cards to have is three but it is never a good idea to close credit cards to get down to that number because closing the card does more damage than the increase received by having fewer cards.

- **10% of the score is derived from the number of times you apply for credit.** There are several types of inquiries but the only kind that hurt your credit score are those linked to an application for credit. In some cases, even asking for a credit limit increase is considered applying for a loan and can trigger the wrong kind of

FICO score can now be the kiss of death even though there may be a logical reason behind it. While we find a number of our bank clients willing to listen to stories behind low FICO scores, it is becoming increasingly difficult to fund loans at a reasonable cost for these Borrowers. Every Borrower now has to recognize the real cost of allowing their FICO score to deteriorate.

Join Team Bond Street

We are looking for experienced commercial loan originators that want to help service our growing customer base. We also offer Branch Office opportunities for select companies.

Please contact **Ned Hosken at 818-336-4107** for information.

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inquiry when the bank runs your credit as a result of the credit limit increase request. Pulling your own credit report online or directly through the credit bureaus is considered a personal inquiry and does not hurt your credit score. I suggest getting your credit report from each of the three credit bureaus at www.annualcreditreport.com. Federal law now allows you to get all three bureaus for free at this site once a year. Anytime you receive a pre-approved credit offer in the mail it is considered what the industry calls a “promotional inquiry” and will not affect your score either. Lastly, a current creditor of yours looking at your credit report without you asking them to is considered an “account review” inquiry and has not effect on your credit score.

For help with credit issues, contact:

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