

The Impact of Foreclosures on FICO® Scores

The current trend in the marketplace is focused on the impact of foreclosures across the country. This trend has resulted in various opinions on the types of foreclosures (Short Sale, Deed in Lieu and Foreclosure) and its impact on a borrower's FICO score.

This topic, which is raised in news articles and other industry collateral, has generated many questions among members of our various sales channels; mainly, how score models calculate each type of foreclosure. After soliciting assistance from various individuals and resources - including each of the three major credit bureaus and CreditXpert - we have compiled the following information for your review.

While many people have associated a target point impact anywhere from 100 points on a Short Sale to 280 points on a foreclosure, Fair Isaac has told us that FICO risk scores do not distinguish between the three types of foreclosures. There are so many variables in a consumer's credit report (do they have collections or other public records?) in addition to the foreclosure account that a point impact is almost impossible to gauge. Further complicating the score prediction is how the foreclosure account is reported, and if a public record accompanies it.

Each article we've seen suggests that a Short Sale has less of an impact on an applicant's FICO score than a Foreclosure, but downplays the fact that there could be legal action taken by the lender on the deficiency balance from a Short Sale. If this is the case, there would then be both a derogatory trade line and a Public Record reporting. This is the same result as a Foreclosure; a derogatory tradeline plus the Foreclosure Public Record. Even without the Public Record filing there would still be the reporting of an MOP 8 on the Short Sale tradeline. This would have a negative impact on the applicant's score equivalent to a foreclosure tradeline. Finally, Short Sales are typically facilitated to those applicants who have encountered credit issues. These issues would be reflected in the derogatory reporting of other credit items within the consumer's credit profile.

First American CREDCO does not provide legal advice; therefore, this information is not intended, or should be perceived, as offering legal counsel to our customers. However, there seems to be a considerable amount of incomplete or inaccurate information on this topic in the marketplace. That said, we hope this information will be helpful in addressing any questions you may field on this issue.

DEFINITIONS:

Foreclosure

- ▶ An owners right to their property is terminated, usually by default.
- ▶ Property is purchased back by bank or public auction (sheriffs sale).
- ▶ Proceeds of public auction applied to mortgage debt.
- ▶ Most states will zero out deficiency balance.

Deed in Lieu

- ▶ An owner avoids foreclosure by voluntarily surrendering their property by deeding to the lender as satisfaction for the debt.
- ▶ Deed in Lieu allows the lender to take possession sooner than would be possible through formal foreclosure.

Short Sale

- ▶ A short sale typically is executed to prevent a home foreclosure.
- ▶ A short sale is nothing more than negotiating with lien holders a payoff for less than what they are owed, or rather a sale of a debt, generally on a piece of real estate, short of the full debt amount.



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