

IMPACT OF LOAN STATUS ON FICO® Scores

FICO® scores may be affected by the current status on mortgage loans. How much depends on the overall composition of the consumer's file and how the lender reports the account.

- **Will a loan modification affect my FICO® score?**
 - The FICO® score considers a trade line identified as modified under a federal government program (MHA/HAMP) or modified outside of a federal program in the same way it considers any other trade line. Consumers are not penalized due to loans modified under such a program. However, if a lender reports a mortgage modification that indicates "not paid as agreed," the information on the consumer's credit report will likely be considered as negative by the FICO® scores.
- **How will my lender report these accounts?**
 - It is best to contact your lender for specific policies about loan modifications.
- **Will a foreclosure or deed-in-lieu of foreclosure do more damage to my FICO® score?**
 - Both of these scenarios are considered serious derogatory items and can have a negative impact on FICO® scores
- **Will a 'short sale' affect my FICO® score?**
 - A short sale is usually reported as "**Settled for less than full amount**"; "**Account Paid for Less than the Full Balance**"; or similar statements. These statements are considered derogatory indicators by the FICO® score model.
- **Will making partial payments affect my FICO® score?**
 - "**Paying under a partial payment agreement**" has a negative impact on the FICO® score; the extent of the impact can vary depending on information in each consumer credit file.
- **Why do these scenarios affect my FICO® score?**
 - That's because FICO® scores measure future risk. Statistically, the likelihood that a person will become seriously delinquent in the near future increases when they are reported as not paying an existing obligation as agreed.
- **Are any of these options better than others?**
 - Some of these options may have different financial benefits or viewed differently by lenders and underwriters and may have a negative impact on FICO® scores. The status may stay on the consumer's file for up to 7 years. The common alternatives to foreclosure, such as short sales, and deeds-in-lieu of foreclosure can all impact a consumer's FICO® score. A consumer may have financial or other reasons to choose one of these alternatives instead of foreclosure, but they will be considered no better or worse for the FICO® score.
- **Is bankruptcy a better option?**
 - Bankruptcy is an alternative, but it is advisable to consult with an attorney before proceeding. Bankruptcy as an alternative to foreclosure may have a greater impact to a FICO® score. While a foreclosure is a single account that a consumer may default on, declaring bankruptcy has the opportunity to affect multiple accounts and has potential to have a greater negative impact on the consumer's FICO® score.

Research looks at how mortgage delinquencies affect scores

How much impact does a short sale have on FICO® Scores? How about a foreclosure? Since I frequently hear these questions from clients and others, I thought I'd share new FICO research that sheds light on this very subject.

The FICO study simulated various types of mortgage delinquencies on three representative credit bureau profiles of consumers scoring 680, 720 and 780, respectively. I say “representative profiles” because we focused on consumers whose credit characteristics (e.g., utilization, delinquency history, age of file) were typical of the three score points considered. All consumers had an active currently-paid-as-agreed mortgage on file.

Results are shown below. The first chart shows the impact on the score for each stage of delinquency, and the second shows how long it takes the score to fully “recover” after the fact.

Impact to FICO® Score

	Consumer A	Consumer B	Consumer C
Starting FICO® Score	~680	~720	~780
FICO® Score after these events:			
30 days late on mortgage	600–620	630–650	670–690
90 days late on mortgage	600–620	610–630	650–670
Short sale / deed-in-lieu / settlement (no deficiency balance)	610–630	605–625	655–675
Short sale (with deficiency balance)	575–595	570–590	620–640
Foreclosure	575–595	570–590	620–640
Bankruptcy	530–550	525–545	540–560

Source: FICO® Banking Analytics Blog. © 2011 Fair Isaac Corporation.

Estimated Time for FICO® Score to Fully Recover

	Consumer A	Consumer B	Consumer C
Starting FICO® Score	~680	~720	~780
Time for FICO® Score to recover after these events:			
30 days late on mortgage	~9 months	~2.5 years	~3 years
90 days late on mortgage	~9 months	~3 years	~7 years
Short sale / deed-in-lieu / settlement (no deficiency balance)	~3 years	~7 years	~7 years
Short sale (with deficiency balance)	~3 years	~7 years	~7 years
Foreclosure	~3 years	~7 years	~7 years
Bankruptcy	~5 years	~7–10 years	~7–10 years

Note: Estimates assume all else held constant over time (e.g., no new account openings, no new delinquency, similar outstanding debt).

Source: FICO® Banking Analytics Blog. © 2011 Fair Isaac Corporation.

- The magnitude of FICO® Score impact is highly dependent on the starting score.
- There's no significant difference in score impact between short sale/deed-in-lieu/settlement and foreclosure.
- While a score may *begin* to improve sooner, it could take up to 7-10 years to *fully* recover, assuming all other obligations are paid as agreed.
- In general, the higher starting score, the longer it takes for the score to fully recover.
- Even if there's minimal difference in score impact between moderate and severe delinquencies, there may be significant difference in time required for the score to fully recover.

This study provides good benchmarks of score impact from mortgage delinquencies. However, it is important to note that research was done only on select consumer credit profiles. Given the wide range of credit profiles that exist, results may vary beyond what's in the charts above