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Reporting Change Could Raise Credit Scores, Risk

The three major credit reporting agencies have announced a **significant change** in their credit reporting metrics that could both boost credit scores for millions of consumers and cause potential problems for lenders.

The Consumer Data Industry Association, a trade group representing credit reporting companies said late Monday that the three major companies that provide credit data, **Equifax, Experian, and TransUnion**, will soon remove tax lien and civil judgment data from some consumer credit records. The removal will impact most such existing data and, going forward, the way new data must be reported from the source.

Starting July 1, public records data must include **three of four data points**, the consumer's name, address, and either a social security number or a date of birth. Existing records that do not meet this criterion will be purged from the consumer record and new data that does not include these points will not be added. Many liens and most judgments don't include all three or four pieces of information.

This change will not only eliminate negative information from the record but should ultimately have the effect of raising many credit scores. Both the reports and scores are **instrumental** in lender decisions about whether or how much consumers can borrow for auto, home, and other major purchases as well as the interest rate they will pay.

FICO, which provides credit scoring, estimates that there will be an improvement to about **12 million** consumer scores, about 6 percent of those consumers with such scores. For most the boost to their scores will be modest, probably less than 20 points.

It appears that the changes announced by the credit reporting companies are **at least partially in response** to a recent report from the Consumer Financial Protection Bureau (CFPB). CFPB is the first government agency to oversee credit reporting and has been critical in the past of many of the firms' quality control functions as well as their manner and efficiency in addressing consumer complaints and errors in credit records. A report issued earlier this month found substantial improvement over the past several years but also noted a need for additional development and formalization of corrective actions on the part of some. Specifically noted was the need for improving standards for public record data. In a separate monthly report, CFPB also noted that credit reporting continues to account for the largest share of

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00
Freddie Mac			
30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.00%	-0.03	0.60
15 Yr. Fixed	6.63%	+0.07	0.61
30 Yr. FHA	6.87%	-0.03	0.92
30 Yr. Jumbo	7.13%	+0.02	0.38
5/1 ARM	6.22%	-0.16	0.60

Rates as of: 7/22

Recent Housing Data

		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

consumer complaints the agency receives.

		Value	Change
Builder Confidence	Mar	51	+6.25%

The *Wall Street Journal* reports that settlements of lawsuits brought by various states have **already** pushed the credit reporting companies to remove some categories of negative data from reports such as information related to library fines and gym memberships, and required changes to the timing of medical collections information.

There are fears that the change in reporting **negative public records** information could pose potential risks for lenders as they try to accurately predict borrowers' creditworthiness. The *Journal* quotes information from LexisNexis Risk Solutions, which supplies such information to the credit bureaus and to lenders. They maintain that consumers with liens or judgments are twice as likely as others to default on loan payments.

The paper also quotes John Ulzheimer, a credit specialist and former manager at Experian and credit-score creator FICO who says, "It's going to make someone who has poor credit look better than they should," said "Just because the lien or judgment information has been removed and someone's score has improved doesn't mean they'll magically become a better credit risk."

Update: Buyer Broker Agreement

After requests from real estate companies, a nonprofit consumer watchdog group the Consumer Federation of America has developed a list of factors to consider when creating a buyer contract in preparation for upcoming practice changes in the industry.

CFA released its “Proposed Criteria for Evaluating Home Buyer Contract Forms” on Tuesday. The 15 criteria focus on the contracts’ form — whether the documents are readable and understandable — and content — whether they are fair to homebuyers.

-the document’s expiration date (CFA recommends buyers asks for a three-month contract and never sign one longer than six months)
-the right to terminate the contract
-the disclosure that compensation is negotiable
-the broker’s compensation clearly stated and that the buyer broker can’t receive additional compensation for facilitating a sale
-that any additional fees, such as for showing a home, will be deducted from the broker’s commission if there is a successful sale
-that the commission is due only if there is a successful closing
-that buyers have an obligation — for no longer than 60 days, CFA recommends — to pay a broker who earlier showed them a home they purchased after the contract ended
-seller concessions paid directly to buyers
-dual agency not pre-approved by the contract
-an explanation of how a broker treats different buyer clients interested in the same property
-that buyers should not be required to first go through mediation or arbitration if they have a complaint

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