

WHAT IS YOUR "REAL" CREDIT SCORE

By

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While advising clients, I am often asked about the impact various actions will have on their credit. At first, I suggested that the question was best answered by professionals such as credit counselors. But the question was consistently asked, and it soon became apparent that although it was not strictly of a legal nature, it was, in fact, not really of any particular nature whatsoever. It was simply a question that was important to clients in their decision making process.

So I answer the question truthfully: "I do not think anyone can predict the impact a particular act will have on your credit." We can discuss possibilities, but the length of time an item remains on your report and its numerical impact on the score itself are unknowns. Each of the three major credit reporting agencies – Equifax, TransUnion and Experian – use unique formulas to compute credit scores. And given the unknowns thrown into those formulas, any professional who provides assurance as to how a particular transaction will impact a score is probably committing malpractice. We simply do not know.

Today, my advice to clients is that while the impact on credit scores is important, it should not be a decisive factor unless the client is considering an action that, financially, they need not take. For example, if a client can afford the home in which she resides, but is considering foreclosure merely due to a negative equity position resulting from current economic conditions, the potential credit impact is critical. Being financially *sound* with bad credit is as much a hindrance to obtaining credit as is being financially *unsound* with bad credit. Beyond that, advising on credit comes within the realm of "guesstimates." Prudent advisors, after giving general advice, merely ensure that the client understands that an unknown credit impact may result for an undetermined period of time.

Recently, I learned just how convoluted the credit reporting and scoring process can be. In August, 2009, I purchased a home. The lender requested a credit report and my score came in around 760. Not too bad. Then, this past February, I purchased a 2010 Jeep, needing a four wheel drive vehicle after suffering through last year's many snowfalls. Well, when the dealer ran my credit, the score came back at 672. What? In six months, my credit score plummeted by nearly 100 points, and yet I never missed a payment, was never late on making a payment and had paid off all my credit cards. I was dumbfounded, but purchased the vehicle anyway.

A few months passed and I pulled my credit report again and, wow, my credit score was back up to 760ish. Fantastic! About a month later, I wanted to refinance the Jeep at a lower interest rate. I met with my loan officer and when she pulled my credit score, it came back at 672. No way! I left the credit union perplexed, returned to my office and once again pulled my credits reports and scores this time from all three agencies (paying \$40). My average credit score was 760.

By now, I was thoroughly confused as to how such vastly different scores could be obtained within mere minutes of each other so I made some calls. First, I contacted the credit agencies and learned something that is not widely disseminated. Financial institutions do not necessarily use the credit scores that the credit agencies make us pay to get. Rather, as I understood it, they obtain a "module" from the credit agency and when the financial institution requests a credit score, it obtains certain information from the agency and then runs that information through its own module. The

result is a credit score that has no relation to the score the consumer obtains from the agency directly. I called my credit union's headquarters and this was confirmed.

With all the commercials on television about free credit reports, the truth is that you cannot rely on the credit score the agencies provide. Their advertising misleads us into believing that lenders are somehow bound by the credit score the agency produces for our personal use. They are not. Computing credit scores involves an incomprehensible process that may not, in fact, reflect your true financial wherewithal, but rather than sort through the convoluted mess in hopes of understanding, it is probably best to store the information in the "things that make no sense" file we all have.

Yet something is learned from every experience and I have learned that the advice I have provided clients over the last several years has been accurate. So now when I am asked what impact a particular action will have on one's credit score, I can answer with certainty that, beyond a generic "good or bad", no one knows, not even, apparently, the credit reporting agencies.