Credit Score Impact Guide

Common credit actions and their expected impact

Credit scores are the top reason mortgage loan applications are declined.[1] So the natural question loan originators have when looking to improve pull-through rates is:

What can my clients do to improve their credit and qualify for the best loan?
They can do a lot!

Loan officers use CreditXpert® smart software solutions on nearly one million credit reports each month to help applicants improve their credit habits and qualify for the best possible loans. Having analyzed so many credit reports, we've learned a lot about what works—and what doesn't—when trying to improve credit scores.

Here are some of the common steps CreditXpert® What-If Simulator™ users advise their clients to take to help improve their credit scores, along with average expected score impacts[2]:

1. **Pay down balances.**
   Average expected impact[3]: 6 points per pay-down action
   % of credit reports upon which What-If Simulator™ users try this action: 80%

   Paying down credit card balances is a go-to action – especially on the cards with the highest utilization — and is a common first step that can have a positive impact. CreditXpert® What-If Simulator™ users can simulate the impact this can have on a credit score.

1 According to the latest HMDA data (2016) for new home loan, refinance and home equity mortgage applications.

2 CreditScores are provided by the credit bureaus. Score changes from CreditXpert® are only estimates and may not be identical or similar to credit scores and score changes produced by any other company. Actual changes, if any, will vary based on an applicant's specific situations. The information generated by CreditXpert® products is based on credit report information from the credit bureaus.

3 Percent of reports and average expected impacts based on top actions users run in CreditXpert® What-if Simulator™. Actual score improvement or decline will vary based on applicant's specific situations.

2. **Look to the future.**
Average expected impact: 21-point improvement
% of credit reports upon which What-If Simulator™ users try this action: 65%

What-If Simulator™ users often look 30+ days into the future for their clients—not only to make sure the score improvement plan they intend to recommend will still make a difference if it isn't completed immediately, but also because sometimes situations that lower credit scores are temporary and will improve on their own, particularly for clients who've been preparing to purchase a home and have already started paying more careful attention to their credit. What-If Simulator™ users most often look one month into the future, but timeframes of up to nine months are commonly simulated, reflecting the time it takes to find a home or build one.

3. **Delete existing credit or collection accounts.**
Average expected impact: 5-point improvement per account deletion
% of credit reports upon which What-If Simulator™ users try this action: 31%

Some borrowers may have a credit or collection account on their record even if the debt belongs to someone else. Authorized User accounts with high utilization or late payments can often be deleted because the account is the responsibility of the primary account holder. Borrowers can sometimes negotiate with collection agencies to pay down the debt in exchange for deletion of the account from their credit report.

4. **Open a new credit account.**
Average expected impact: 12-point improvement per new account
% of credit reports upon which What-If Simulator™ users try this action: 20%

Only one in five CreditXpert® What-If Simulator™ users look to see the impact opening a new credit card could have for their clients, but in many cases it may be one of the highest-impact actions they can take. After all, a client with little to no credit doesn't have much of a payback history, and lenders can see that as a risk. Opening a credit card account can also lower overall revolving utilization, which can have a positive impact.

5. **Pay off delinquent balances.**
Average expected impact: 5-point improvement per balance payoff
% of credit reports upon which What-If Simulator™ users try this action: 10%

Delinquent balances can signal a borrower who cannot—or will not—make good on their commitments, so paying off any past-due amounts to bring accounts to a current status is often helpful. Improvements have also been seen in cases where the borrower settles a charged-off or other delinquent account so that the past-due amount is reported as $0. (This doesn't apply to third-party collections.) This step comes into play less frequently because only a small number of credit reports indicate past-due balances.

6. **Correct any late payment status.**
Average expected impact: 8-point improvement per correction
% of credit reports upon which What-If Simulator™ users try this action: 7%

Like delinquent balances, late payments can signal repayment issues. Correcting inaccurate late payments can have a big benefit to borrowers. Users typically simulate this on an account that has only a single late payment in its history.

Having clients take action to improve their existing credit scores is just part of the equation. It's also smart to find out whether your clients have anything looming on the horizon that could decrease their score. No one wants to advise a client to use a portion of their cash reserves to pay down balances, only to have the impact wiped out by something they didn't see coming.

Here are a few additional situations CreditXpert® What-If Simulator™ users check to make sure they foresee potential credit score decreases[4]:

1. **Removing an account dispute.**
Average expected impact: 2-point score decline per account once dispute is removed
% of credit reports upon which What-If Simulator™ users try this action: 13%

A client may dispute an account for valid reasons or as a way to temporarily hide a credit issue. Either way, once the disputed status is removed from the account, it can impact the score–for better or worse.

2. **Increasing a balance.**
Average expected impact: ½-point score decline per balance increase
% of credit reports upon which What-If Simulator™ users try this action: 10%

Applicants may be anxious to make big purchases for their new home or remodel, but that can cause issues if doing so increases the balances on their credit cards. Users simulate this situation to show borrowers the impact of purchases they've already made or are thinking of making.

3. **Closing an existing account.**
Average expected impact: 1-point score decline per account closed
% of credit reports upon which What-If Simulator™ users try this action: 3%

Just as opening a new credit card account can increase credit scores, closing an account can impact scores negatively by reducing the client's total credit limit and therefore increasing overall revolving utilization.

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Summary Table: Common Actions in CreditXpert® What-If Simulator™

Action	Average Expected Impact Per Action in CreditXpert® What-If Simulator™ Simulations[5]
Look into the future (1-9 months)	+21 points
Open a new credit account	+12 points
Correct any late payment status	+8 points
Pay down balances	+6 points
Delete an existing credit or collection account	+ 5 points
Pay off delinquent balances	+5 points
Increase a balance	-½ point
Close an existing account	-1 point
Resolve an account dispute	-2 points

Actual score improvement or decline will vary based on the applicant's specific situation. Points are shown for reference only; do not use these points to predict an applicant's future credit score.

Of course, the credit score increase or decrease for each action will vary from application to application, and some actions build on each other, so actions that work for many typical situations may not work for your individual client.

5 Percent of reports and average expected impacts based on top actions users run in CreditXpert® What-If Simulator™. Actual score improvement or decline will vary based on applicant's specific situations.

Find the best plan for your client.

Want to see how common credit actions would affect your client's credit score? CreditXpert® software solutions let you do just that. Use CreditXpert® What-If Simulator™ to show you the expected impact of specific credit actions or use CreditXpert® Wayfinder™ to automatically build a credit optimization plan to help your client improve their credit score by an average of 27 points. Either way, you can improve your pull-through rates, prevent applicants from going to your competitors, and help customers get into the home of their dreams.

Follow these two steps to use CreditXpert® software solutions to get the expected impact of common credit actions for your clients:

1. Check the CreditXpert® Credit Assure™ analysis of your credit report to see your client's potential score improvement.

2. From there, link to CreditXpert® Wayfinder™ to get a credit optimization plan or CreditXpert® What-If Simulator™ to test different scenarios and help clients reach their highest potential.

Don't have access?
Ask Service 1st how you can get access today!

Learn more or contact us at www.srv1st.com/creditxpert