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Overdue Medical Bills? Upcoming Changes Will Improve Your Credit Score

Let's Talk Home Financing

By Jim Smith Realtor®

Your credit scores affect nearly every facet of your financial life. And it's no secret that ***life is better with a good credit score.*** Good credit makes it easier to buy a car, rent an apartment or get a home loan.

Jaxzann Riggs, owner of **The Mortgage Network**, shared with me some important information about changes that will likely improve many consumers' credit scores.

While many potential homeowners do their homework and check their credit scores prior to applying for a loan, they are often surprised when they sit down with a mortgage broker, who informs them that the credit scores appearing on their "tri-merged, residential credit report" are significantly lower than those obtained thru consumer online sites. For some, this could mean that their house hunting is going to have to wait.

Bank sites and Credit Karma may give you a good picture of your "consumer" credit score, but when mortgage lenders review your credit history, they use a credit score formula tailored to determine what kind of risk you'll be for a mortgage loan. The formula weighs pieces of your credit history differently in order to test for such risk factors as debt collections that have been paid off. The score is tailored to mortgage lenders because it's ***specifically focused on your ability to repay a home loan***, versus an auto loan or credit card. With credit scores, the higher the score, the lower the mortgage interest rate. For borrowers with a credit score under 740, lenders factor the additional risk into your interest rate.

What impacts different scores? Mortgage lenders typically use a FICO score (Fair Isaac Corporation) to determine your loan options. Your FICO score is based on many things such as your amounts owed, length of credit history, and your payment history. Payment history alone accounts for 35% of your FICO score, which looks at late payments, unpaid balances, or accounts that have gone into collections. While you may have paid off the collection shortly after a notice, unfortunately, those negative records can stay on your FICO report for a long time!

A collection account, no matter what it is owed for and no matter what the amount, can easily drop a credit score 100 points or more, depending on what the rest of the credit report looks like. According to the Consumer Financial Protection Bureau's research, ***58% of collections on a consumer's reports are medical.*** And as of June 2021, the amount of medical debt on consumer credit reports was $88 billion dollars

Good News Has Arrived

Starting July 1st, the three large credit bureaus — Equifax, Experian and TransUnion — will stop including medical debt that went to collections on credit reports after it's paid off. Under current practice, it can remain on your record for seven years.

Additionally, consumers will get a year, up from six months, before unpaid medical debt appears on credit reports once it goes to a collection agency. And in the first half of 2023, the credit bureaus will stop including anything that has a balance less than $500.

What does that mean for your FICO score? Well, that is a good question! While we know that the changes will positively affect many people, we don't know the extent to which it will change the mortgage FICO scores until the changes go into effect.

If you have questions about your credit scores or report, get in touch with Jaxzann at **303-990-2992**. She will also answer any mortgage loan questions that you may have.

The Mortgage Network®