



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.



All in all, we saw:

- 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.

If you have questions about this research, I encourage you to post them here on the blog.

Courtesy of Joanne Gaskin <http://tinyurl.com/3eze2a5>