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How to Wreck Your Credit Score

By KAREN BLUMENTHAL

Don't underestimate the harm that even one missed mortgage payment can do to your credit score—especially if you had good credit to begin with.

The severe consequences underscore that you shouldn't shrug off even an accidentally missed payment. Instead, you should pay it and call the lender right away, begging for forgiveness before it mars your credit record.

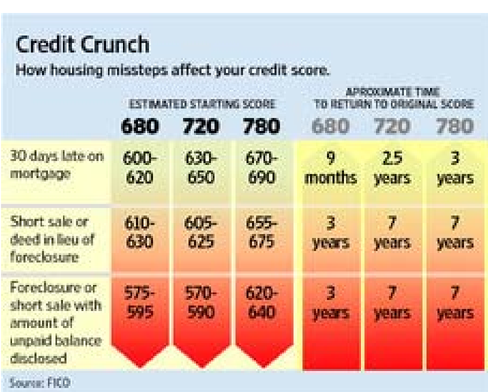
In an unusually specific commentary to lenders, Fair Isaac, the creator of the FICO score, recently spelled out the severe consequences to the credit scores of borrowers who are 30 days late on their mortgages—as well as the long-term impact of failing to repay the whole mortgage.

It isn't a pretty picture.

Being 30 days late on a house payment—even if it is an accident—can knock 100 points off a pristine 780 credit score, moving you from qualifying for the very best interest rates to the edge of subprime territory.

The actual numerical drop is less severe if your starting credit score is 720 or 680, but the impact is greater, since your new score is likely to sink to a level where new credit is hard to get and very expensive.

The FICO score ranges from a low of 300 to 850, with scores of about 750 or higher generally qualifying for the best loan terms.



Credit Crunch

How housing missteps affect your credit score.

	ESTIMATED STARTING SCORE			APROXIMATE TIME TO RETURN TO ORIGINAL SCORE		
	680	720	780	680	720	780
30 days late on mortgage	600-620	630-650	670-690	9 months	2.5 years	3 years
Short sale or deed in lieu of foreclosure	610-630	605-625	655-675	3 years	7 years	7 years
Foreclosure or short sale with amount of unpaid balance disclosed	575-595	570-590	620-640	3 years	7 years	7 years

Source: FICO

The details provide a warning for anyone whose home is way underwater and is tempted to simply walk away, or considering a "short sale." That is when the sale price is less than the amount you owe and the borrower doesn't make up the difference. More than 350,000 homes have been sold this way since 2008, according to the Office of the Comptroller of the Currency.

FICO officials usually dodge questions about the specific impact of actions on scores. But Joanne Gaskin, director of FICO mortgage markets, compiled the data partly to counter incorrect information, such as recommendations that people stop paying their mortgages so they can negotiate with a lender, she says.

FICO says a foreclosure or short sale where the size of the unpaid balance is reported are equally devastating to a good or excellent credit score, reducing it by as much as 150 points, to the high 500s or low 600s. A rarer "deed in lieu of foreclosure"—in which the borrower voluntarily transfers ownership of the home to the lender—may have less impact on an excellent score.

Recovering your original score takes about seven years. That also is how long the information stays on your credit report, where insurers and potential employers can see it. Returning to a mediocre 680 score may take only three years.

Here are some other lessons from the data:

• **Your past behavior counts, but your current behavior matters more.**

Credit scores are intended to measure the risk that you won't repay a current or future debt. So your careful payments over many years translate into a higher starting score.

But your score takes the biggest hit of all when you are 30 days late on a payment, falling 70 to 100 points in the FICO example. It drops less when you are 90 days late and if you default. The reason? The first missed payment "captures a good deal of the risk of the consumer," Ms. Gaskin says.

• **The best way to rebuild a damaged credit score, ironically, is to use credit.**

Avoiding borrowing altogether means "you've frozen your credit history in a negative state," says Maxine Sweet, vice president of public education for credit bureau Experian. You will be better off using a credit card judiciously and paying it off promptly, adding good-behavior points to your record.

• **A rotten score hurts more than you think.**

A person with a 620 score would pay almost 12% interest on a four-year $25,000 car loan, compared with less than 5% for someone with a 780 score—a difference of almost $4,000 over the life of the loan. On a 30-year fixed-rate $250,000 mortgage, a person with a 620 score might qualify for a 6% rate, but probably wouldn't be able to get mortgage insurance, which is required if your down payment less than 20%. A person with excellent credit might land a rate less than 5% and pay about $3,000 a year less.

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