# Credit Scores Can Drop After Getting Loan Help

Homeowners see credit scores sink after signing up for mortgage relief

**By ALAN ZIBEL AP Real Estate Writer**

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Some homeowners who sign up for the government's mortgage assistance program are getting a nasty surprise: Lower credit scores.

For borrowers who are making their payments on time but are on the verge of default, the Obama administration's loan modification program can reduce their credit score as much as 100 points. That makes it harder to get a loan and can present a problem when applying for a new job.

Housing counselors say it's unfair, especially because the news often comes as a surprise to homeowners.

"Why should people's credit be hurt even worse when they're trying to do the right thing?" said Eileen Anderson, senior vice president at Community Development Corp. of Long Island, a housing counseling group in New York.

And many homeowners are angry that a program designed to help carries such a penalty, said Kathy Conley, a housing counselor with **GreenPath Inc**., a nonprofit group in Farmington Hills, Mich.

"It's a feeling of being duped," she said.

Still, the impact is far less severe than a foreclosure, where borrowers typically find their credit is in tatters for years. That's due to the cumulative impact of many months of missed payments and the foreclosure itself, which drags down a homeowner's' credit by 150 points or more on a scale of 300 to 850.

To enroll in the Obama administration's $75 billion "Making Home Affordable" program, borrowers enter a trial period in which they make at least three payments. But some are finding out that their credit score takes a dive during this trial phase. It happens once their mortgage company notifies the three big credit bureaus — Experian, Equifax and TransUnion.

For delinquent borrowers, the damage was done when they fell behind on their loans.

But for homeowners who are having financial troubles but managing to pay their bills, a request for a loan modification is the first sign of difficulty. And that means a sharp drop in the borrower's credit score.

The credit rating industry defends the practice. People who sign up for loan modifications would not be asking for help unless they were having severe money troubles, said Norm Magnuson, spokesman for the Consumer Data Industry Association, a trade group in Washington that represents the credit bureaus.

"The consumer is going into the program because they're in a financial bind," he said. "Other lenders would need to be aware of that."

The Obama administration acknowledges that enrolling in the program can hurt credit scores. But Meg Reilly, a Treasury Department spokeswoman, said that foreclosure "brings far more serious financial consequences for borrowers and their families."

The credit score issue is an unexpected consequence of the program that has been plagued with problems and disappointing results since its launch last year. Only about 170,000 homeowners had completed the process as of February. Hundreds of thousands more are still in limbo.

Jim Owens, 46, of Harrisburg, Ore., was accepted on a trial basis for the Obama plan last year.

He and his family were in bad financial shape. They were barely able to pay the mortgage and utility bills.

The main reason: After being laid off and unemployed for six months, he took a job as maintenance director at a retirement home. But it paid only around $25,000 year, about $10,000 less than his former job in a city public works department.

He and his wife were also struggling with debt, after taking out a second mortgage four years ago to pay off debt and medical bills.

Late last year, he was searching for a used sport-utility vehicle. He got a 30-day approval for $2,000 car loan.

But that time ran out before he found a car, so he had to reapply for the loan. He was shocked to learn that, after signing up for the Obama plan, he was denied.

"I should have been told," that this might happen, Owens said. "Without credit, you can't do a whole lot in life."

A Citi spokesman, Mark Rodgers, said the company follows the Treasury Department's guidelines for reporting to credit bureaus. "We do not determine credit scores," said Rodgers, who declined to comment on Owens' case.

The impact is worse for borrowers who enroll in the Obama program and are then ruled ineligible.

If homeowners do manage to get accepted into the Obama program and have their loans permanently modified, lenders update the credit bureaus. The new status neither hurts nor helps the borrower's credit score. Over time, they can see their score increase.

"The best way to build credit back is to continue to pay bills as agreed, to use credit wisely," said Tom Quinn, vice president of scoring solutions at Fair Issac Corp., which designed the well-known FICO score system. "As time goes on, the score gradually increases."



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