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Borrowers 'coattailing' to get loans Credit card holders sell use of their good ratings

By J.W. Elphinstone THE ASSOCIATED PRESS

Only a low credit score stood between Alipio Estruch and a mortgage to buy a \$449,000 Spanish-style house in Weston, Fla., a few miles west of Fort Lauderdale.

Instead of spending several years repairing his credit rating, which he said was marred by two forgotten cell phone bills and identity theft, the 37-year-old real estate agent paid \$1,800 to an Internet-based company to bump up his score almost overnight.

The result was a happy ending for Estruch, but the growing practice is sending shivers through the mortgage industry. Federal regulators are also reviewing the practice. And after being contacted by The Associated Press for this story, Fair Isaac Corp., the developer of the widely used FICO score, said it will change its credit scoring system beginning later this year in a way it contends will end this little-known but potentially high-impact mortgage loan loophole.

Instantcreditbuilders.com, or ICB, helped Estruch boost his score by arranging for him to be added as an authorized user on several credit cards of people with stellar credit who were paid to allow this coattailing. Parents also use this practice when they add their children to their credit cards to help them build solid credit.

The pitch to those who are essentially renting their credit history for pay is seductive: You don't need to worry about users of this service receiving duplicate copies of your credit cards, account numbers or any of your personal information. It's essentially free money, they are told.

Brian Kinney, 44, a retired Army officer in Glendale, Calif., pulls in more than \$2,500 a month by lending out 19 credit card spots on two old Citibank cards with strong payment histories. Kinney, whose FICO score is above 800 on the scale of 300 to 850, quit his job working at a Farmers Insurance agency and uses the ICB income to tide him over until he starts his own insurance agency.

Lenders are worried, however, that they're taking on greater default risks by unknowingly offering lower interest rates than they otherwise would to applicants who artificially boost their credit scores. Their trade group has complained to the Federal Trade Commission and is talking with the credit reporting bureaus in case the practice becomes more widespread.

Estruch paid \$1,800 in December for three credit card spots, and by January, his FICO score jumped from 550 to 715. In mid-March, he closed on his four-bedroom beige stucco house after obtaining a 30-year fixed-rate mortgage from a unit of American Home Mortgage

Credit ratings

A borrower's credit rating, such as Fair Isaac Corp.'s FICO score, can make the difference between qualifying for a loan or not. A higher score usually means a lower interest rate on a mortgage.

Interest rates and monthly payments on a \$300,000 30-year fixed mortgage*

FICO score	Interest rate	Monthly payment
760-850	5.986%	\$1,796
700-759	6.208	1,839
660-699	6.492	1,895
620-659	7.302	2,057
580-619	8.816	2,374
500-579	9.782	2,585

*Interest rates calculated as of June 1.

SOURCE: Fair Isaac Corp.

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Rent-a-credit raising eyebrows

The angle: Instantcreditbuilders.com boosts credit scores by arranging for clients to be added as authorized users on several credit cards of people with stellar credit.

The method: Companies like Largo, Fla.-based ICB are sprouting on the Internet with little overhead and no-frills marketing.

The response: So far, federal authorities have yet to make a ruling on the practice.

The quote: 'I know the whole thing sounds kind of odd and not very legitimate, but it is for now.' — Brian Kinney

Investment Corp. It carried a 7.5 percent interest rate and required no down payment.

"Everything now is score-driven. I had a great mortgage history, but I got hurt because of my credit score," said Estruch, who also works as a mortgage broker, had bought and sold two houses previously, and currently owns another home in New York. Estruch said he's current on his mortgage payments.

Companies like Largo, Fla.-based ICB are sprouting on the Internet with little overhead and no-frills marketing. They post ads on community Web sites like Craigslist and have sponsored links on Google and Yahoo!. Competitors of ICB have even reached out to mortgage brokers, lenders and real estate agents, flooding their e-mail with advertisements.

Jason LaBossiere, who founded ICB a year and a half ago, said his company receives 100 to 150 new leads daily — a number that has been growing — and those inquiries lead to 10 to 20 new clients a week.

ICB charges \$900 for the first credit card account, with a discount for additional ones. The cardholder allowing the piggybacking on his or her credit history can receive \$100 to \$150 per slot, depending on the age and credit limit of each card. ICB pockets the rest.

The effect on a credit score can vary depending on what else is in a client's report. But one borrowed credit card account can increase a score between 30 and 45 points, two between 60 and 90 points, and five between 150 and 205 points, according to ICB. That's because the computer program that calculates scores is essentially tricked into believing the credit renter has a better repayment history when it sees the added accounts, and that helps lift the credit score.

Once the credit card company files an updated report to credit bureaus — leading to a higher FICO score — the credit renter is removed from the account of the person allowing the piggybacking. However, the credit card's payment history remains on the authorized user's credit report forever, and lenders have no way of knowing how the credit borrower is related to the cardholder.

A higher credit score can save a consumer an enormous amount of money because it usually means a lower mortgage interest rate. It also can mean the difference between qualifying for a loan or not, as in Estruch's case.

According to Fair Isaac, lenders would probably demand about a 9.8 percent interest rate on a \$300,000, 30-year fixed mortgage for an applicant with a credit score between 500 and 579. That would translate into a \$2,585 monthly payment for principal and interest.

But a borrower with a score between 760 and 850 seeking the same loan would qualify for about a 6 percent rate that would cost just \$1,796 a month for principal and interest. That savings of \$789 each month would total \$284,040 over 30 years.

Kinney, the retired Army officer in California, said those borrowing his good credit history don't get his personal information, full credit card number or credit card expiration dates. Any sensitive data is handled through ICB, and Kinney adds the users himself by calling his credit card company. ICB also destroys any duplicate cards that are issued to the credit renter, according to its contract.

Instead of being worried about risks he may be assuming, Kinney said borrowers are the ones vulnerable to scammers posing as do-gooders. Those seeking a credit hike give the cardholder their names and Social Security numbers, which, in the wrong hands, could lead to identity theft. Kinney said he also receives credit card offers in the mail for the credit borrowers on his accounts, opening up another possibility for fraud, but he throws them away.

"I know the whole thing sounds kind of odd and not very legitimate, but it is for now," Kinney said. "I don't know how long before someone will decide it's illegal. But I'm not counting on this for the long-term."

Ginny Ferguson, a mortgage broker in Pleasanton, Calif., and a credit expert for the National Association of Mortgage Brokers, considers the practice mortgage fraud, and the trade organization is about to release a policy statement against it.

"These companies are encouraging consumers to commit fraud. On a standard home loan, there's a clause that says the consumer is not omitting pertinent facts that could impact his or her ability to repay the loan," Ferguson said.

ICB's LaBossiere said he sees his business as a second chance for the consumer who has had little financial education to make good decisions.

"People who are our clients are spending an incredible amount of money to get their finances back in order," he said. "They've learned through a school of pain that it's such an important aspect of regaining control of their lives again."

So far, federal authorities have yet to make a ruling on the practice. "What I've gathered from attorneys here is that it appears to be legal" technically, said FTC spokesman Frank Dorman. "However, the agency is not saying that it is legal."

Lenders, who depend on credit scores to assess a person's ability to pay back a loan, are closely watching the practice's growth. It also comes at a time when the industry is reeling from the a soaring default rate on subprime mortgages, home loans for people with bad credit. As a result, they've tightened lending standards, but the credit-renting practice threatens to undermine their efforts to reduce exposure to risky borrowers.

Ninety percent of the largest U.S. banks base their loan decisions on FICO scores, which currently include authorized user accounts. However, after discussions with lenders and industry officials, Fair Isaac said it intends to announce this week that all future versions of its FICO score methodology will no longer consider authorized user accounts.