Why is your mortgage credit score different?

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You're finally ready to apply for a mortgage. You've done your homework and obtained your credit scores—and they look solid. But then you sit down with a mortgage broker and she has some bad news. The credit score she's obtained is worse than the ones you saw. Sorry, but that house is going to have to wait.

"I see this all the time," says Constance Carter, CEO of Catalyst Real Estate Professionals and author of "Keeping Score: What You Need to Know to Make Your Credit Score Grow." "Someone comes to me and says they're ready for a mortgage. That their credit score is, say, 720. But I pull it and it's actually 630. Then I have to tell them they aren't qualified yet. People get really bummed out."

Carter isn't the only one who sees this disconnect. Talk to mortgage experts and they'll relay similar anecdotes about prospective homebuyers who are confused because the credit score they've obtained isn't the one being used by their lender.

"I see numbers that vary anywhere from 30 points to more than 100. This problem has been around a long time, and yet I find the average consumer doesn't know about it," says Carter. "Whenever I speak about this topic, people are simply blown away."

Different scoring models

It's essential to first understand that you have many different credit scores. There are three major credit bureaus—Equifax, Experian and TransUnion. All three bureaus produce scores that are slightly different from the other, because the underlying data they use is unique to that specific agency.

FICO scores are the best-known and most commonly used by lenders looking to assess a consumer's creditworthiness for everything from car loans to new mortgages to refinanced mortgages. FICO scores have a range of 300 to 850—the higher the score the lower the lending risk. FICO scores can be generated from each bureau's data, meaning you have different FICO scores for Equifax, Experian and TransUnion.

"While many lenders use FICO scores to help them make lending decisions, each lender has its own strategy, including the level of risk it finds acceptable for a given credit product," says Shannon Fortner, vice president of finance for InterLinc Mortgage Services. "In other words, there is no single 'credit score' used by all lenders."

Then there's the VantageScore (a joint effort by the three credit bureaus). Right now Vantage's scoring module is FICO's only direct competition, but according to Fortner it's being used in less than 10 percent of all lending evaluations. Older VantageScore models have a range of 300 to 990, and a letter grade to go along with each numerical score. Your VantageScore is based on six different pieces of information that are slightly different than the factors FICO weighs. It also happens to be the most commonly used score provided by popular free-score sites (like Credit Karma and Credit Sesame).

But your VantageScores could vary greatly from your FICO scores because the weighted factors are different.

"This is where most consumers first become confused, because they're not even aware that there is a difference in credit modules and scorecards used in determining different credit score levels," says Fortner.

But guess what? Even if you've obtained a FICO Score and understand how it's different from the VantageScore, you still might not have an accurate sense of whether you're going to be approved for a mortgage.

Industry-specific scores

The bottom line is that not all FICO scores are the same, and the one your mortgage lender uses may be different from the one you recently obtained. Not understanding this gets many prospective homebuyers into trouble, says North Shore Advisory president and FICO Certified Professional Tracy Becker.

"I would say that nine out of ten consumers I come across in my professional life don't realize there's a different FICO scoring model used for different types of borrowing," says Becker. "There's a FICO Score for auto loans, a FICO Score for credit cards, and yes, a FICO Score for mortgages."

According to FICO's site, these industry-specific scores are "optimized for a certain type of credit product…the foundation of these versions is the same as the base FICO Score, but they are fine-tuned based on industry-specific risk behavior."

"All credit scoring models are trying to predict some type of risk, but how they go about it varies, because different lenders are assuming different levels of risk," says consumer credit expert and author Gerri Detweiler. "The risk a lender takes when it makes an auto loan is different than the risk a lender takes when it issues a credit card. Different models can help lenders understand those different types of risk."

What's more, Detweiler points out, there's a big difference between someone borrowing $15,000 for a five-year car loan and someone borrowing $200,000 for a 30-year mortgage. That's why mortgage lenders use FICO scoring models uniquely tailored to their industry. Your mortgage lender will pull the FICO score model it uses to assess mortgage risk from all three credit bureaus – and then use the median number to determine your creditworthiness.

The problem, says Becker, is that too many consumers obtain their FICO scores from one of their credit card companies, many of which provide FICO scores for free with monthly statements. Even though these free scores are based on a FICO scoring model, it isn't the same model used by mortgage lenders – and it's also coming from just one of the three major credit bureaus.

"So let's say you get a credit card score that comes from TransUnion and it's a 780. That's a great score and it comes from a FICO scoring model," says Becker. "But then you apply for a mortgage and your mortgage lender pulls all three. Unbeknownst to you there's a collection that was only reported to Equifax and Experian, and they’ve got you at a 620 and a 630, respectively. The mortgage lender is going to use 630 and now you’re out of luck.”

A simple solution to complicated problem

If you’re planning to apply for a mortgage or refinance an existing one, Becker says the most important thing you can do is purchase FICO’s Ultimate 3B Report from MyFICO.com. It costs about $60 and gives you instant access to your various FICO scores, including the ones most commonly used by mortgage lenders. And since this is considered a “soft” inquiry it won’t negatively impact your score.

“You’re going to see your credit card scores, your auto lending scores and your general FICO 8 score. But what you really want to look for is your mortgage lending score,” says Becker. “Yes, there are ways to get a free credit report, but this is the only foolproof way to make sure you’re getting the precise information you need for a mortgage.”

Next, call your mortgage broker and find out which score threshold will give you the best chance for approval and the most competitive interest rate. If your score is below that range, you now have time to improve it before you start house shopping.

“I think the majority of Americans don’t really pay attention to the nuances of their credit scores until they try to get something important,” says Becker. “Do the work beforehand and know your actual creditworthiness for a mortgage before you get your sights set on a dream home.”