



MORTGAGE EDUCATION

Affordable Education

MORTGAGE/CREDIT SECRETS

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INTRODUCTION

Are you aware how important your credit is to obtaining a mortgage?

When you look for a mortgage, lenders will review your credit report. Your credit report is a history of how you have managed your finances and repaid debt. It provides information on money you have borrowed and a history of your payments.

Your credit history is pulled together into a credit report by three private companies: Equifax, Experian and Trans Union. These companies sell your credit report to banks and other creditors so they can review mortgage and loan applications.

Your credit report includes:

- A list of debts, such as credit cards and car loans, and a history of how you have paid them.
- Any bills that have been referred to a collection agency.
- This can include items like phone and medical bills.
- Public record information, such as tax liens or bankruptcies, even if these have happened several years ago.
- Inquiries made about your creditworthiness. An inquiry is made when you request credit. Many times your report will also show if you were given credit based on the inquiry.

Most of the information in your credit report is deleted after 7 years (a bankruptcy is deleted after 10 years) and is continuously updated to reflect the latest information.

It's important that you look at your credit reports from each of the three companies to make sure they are correct. Your credit report may vary from one company to the other.

Build Good Credit:

Building good credit doesn't have to be difficult. Follow these tips and you're on your way:

1. **Pay Your Bills on Time.** How you've paid your bills in the past can indicate how you'll pay in the future. Credit scores emphasize your most recent payment record so if you've been late, start paying on time!
2. **Pay at Least the Minimum Amount Required.** You can always pay more, but you should never pay less.
3. **Keep Credit Card Balances Low.** Don't "max out" your credit cards.
4. **Don't Apply for Too Many Loans or New Accounts.** Requesting a lot of credit in a short time span may concern lenders that you won't manage your debt well.
5. **Establish Credit if You Have None.** Apply for one or two credit cards. Use the cards carefully and pay them off each month.

Things to Remember About Credit:

IF YOU HAVEN'T BEEN PAYING YOUR BILLS ON TIME, START TODAY!

1. Get your credit report a few months before you plan to buy a house so If you haven't been paying your bills on time, start today! you have time to correct any errors before applying for a mortgage.

2. Find out your credit score and review the information that comes with it.
3. The last 2 years count most. Your credit score looks most closely at the last 2 years.
4. But the last 7 count too! Your credit tracks your payment history over the last 7 years.
5. Shop for a mortgage within a 2 or 3 week period. When you apply for a mortgage, the lender requests your credit report and an inquiry of that request shows up on the report. All inquiries during a 2-week period only show as one inquiry. A couple of inquiries on your credit report are okay, but more can lower your credit score.
6. Don't apply for new credit or make major purchases, such as a new car, right before you apply for a mortgage.
7. If you believe you have credit problems, get help from a credit counseling agency before you apply for a mortgage.
8. Don't be discouraged if you have credit problems. You don't need perfect credit to qualify for a mortgage. But people with perfect credit tend to get better interest rates than people with less-than-perfect credit. Beware of companies who make promises of fixing your credit problems.

Credit Scores:

If you show a pattern of managing your credit wisely, your credit score will be positively affected.

When you apply for a mortgage, the lender may request a credit score as well as a credit report. A credit score is a computer-generated number that indicates your ability and willingness to repay a debt based on your credit record. Your credit score is part of the mortgage information that will decide if your application is approved. Your credit score may also be used to determine your interest rate. If you show a pattern of managing your credit wisely, your credit score will be positively affected.

For example, if you charge up to the limit on your credit cards – even if combined they don't add up to a lot of money – this might hurt your credit score. Or, if you have recently applied for a number of credit cards – even if you haven't begun to use them yet – your credit score might be affected.

However, if you show a pattern of managing your credit wisely, keeping credit card balances low and paying your bills on time consistently, your credit score will be positively affected. Scores are ranked on a scale of approximately 400 to 900 points.

Credit Scores Don't Last Forever:

If your credit score is low, remember that no credit score lasts forever. A credit score is a snapshot based on current information in your credit report. There are things you can do today to improve your credit score in the future.

Paying one of your bills a few days late one time usually will not impact a credit score immediately or significantly. Credit scores reflect credit patterns over time. However, an adverse action, like a tax lien or bankruptcy filing, can immediately and significantly impact a credit score.

So manage your credit responsibly. A strong credit history will give you a strong credit score.

Other Factors Count:

Mortgage lenders look at other information besides your credit score and credit record before deciding whether to give you a mortgage. They look at:

Stability of your income

Employment history

Monthly debt payments (credit card bills, car loans, etc.) in relation to your income

How you save money and how much you have saved

The type of mortgage you are considering

The type and value of the property you want to buy

The amount of the down payment you plan to make

On-time payment of rent and utilities

The key is to have a good balance between your capacity, credit and collateral, the three C's.

Preapproval:

A pre-approval letter tells home sellers that you have the ability to qualify for a mortgage.

If you think homeownership is for you, getting pre-approved for a mortgage is a good idea. This determines the size of the mortgage you qualify for, and therefore, decides the price range for the homes you can look at.

Pre-approval helps you to:

Know how much you can borrow.

Confirm your ability to qualify for a mortgage based on your credit, financial and employment information.

Strengthen your position to make an offer on a house. A seller will be more willing to accept an offer if the buyer is pre-approved.

To become pre-approved, you'll need to work with a mortgage lender. The mortgage lender will review your credit history, earnings information, employment history and assets. You will need to provide certain documents to the lender to verify this information.

After the review, the lender will give you a "pre-approval letter." The pre-approval letter tells home sellers that you have the ability to qualify for a certain mortgage amount.

Getting pre-approved is not the same thing as getting pre-qualified. Pre-qualification simply states that the borrower qualifies for a loan based on some preliminary questions but does not commit the mortgage lender to approve the mortgage. The mortgage lender will still have to conduct a complete review of your financial situation, including your credit report and your income and employment history.

The pre-approval process is more thorough. The lender does most of the work for full approval except for an appraisal and title search because there is no property identified to buy.

Begin to gather the following documents from your files:

When you're ready to meet to apply for a mortgage, you'll need to provide documentation of your income, taxes, bank accounts and other financial papers.

Your pay stubs for the past 30 days

Your W-2 forms for the past 2 years

Information on your long-term debts (car loans, student loans, etc.)

Recent statements from all of your bank accounts and other savings accounts

Tax returns for the past 2 years if self-employed Proof of any supplemental income

Records of any past derogatory credit history that have since been paid off

Records of child support or alimony (either going out or coming in)

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Other Advice

Do not take money away from your down payment savings to pay off debts with less than 10 months – these debts don't count in underwriting.

Do not incur any new debt. For example, don't buy a new car a week before you apply for a mortgage.

Keep your spending in check. Save as much money as possible.