

Your Credit History

Generally speaking, it is believed that history tends to repeat itself. If your credit history reveals that you make late payments or fail to pay at all, then lenders will assume that your mortgage payments will follow the same pattern. Lenders place as much emphasis on your credit history as your employment status to predict your ability to repay your loan. Now is the time to clean up and repair any credit problems from the past.

Your credit history is evaluated on your past debts and your payment history. You'll be asked to provide a detailed list of debts currently owed, the monthly payment amounts, and the time left on the loans. Be honest when developing your list because your credit report will verify the information you provide.

If this is the first time you have applied for a mortgage, it may be the first opportunity you have had to view your credit report and what it contains. Hopefully, you'll be pleased with what you find, but here are some issues that may raise a red flag:

- **Consistent late payments** - The credit report will show a pattern of late payments from any establishment with which you have credit including department store accounts, gas company cards, school loans, and car loans.
- **Declaration of bankruptcy** - If you have declared bankruptcy, it will remain on your credit report for several years. Before now, obtaining a home loan with a bankruptcy filing could be difficult, but today there are several loan programs that address these special needs.
- **Foreclosure** - A home foreclosure also remains on your credit report for several years. However, a foreclosure does not mean that you can never own a home again. A variety of loans are offered to accommodate the needs of those who had to foreclose in the past.
- **Outstanding loans and debts** - If you have outstanding school and car loans and credit card balances, you might be carrying too much debt. A monthly mortgage payment can overtax an already stretched debt ratio.

Any of the above can result in a less than perfect credit rating, but this may not prevent a future successful home purchase. It is never too late to give your credit rating a boost. And the good news is that you will have more time to pay off your existing debt while saving money for the down payment. Give yourself time to enhance your rating and remember that your current equity, job stability and income, and available assets can help dramatically improve a derogatory credit report.

If you are unsure of what your next move should be to improve your credit and your chances to get a home loan, schedule an appointment with a credit counselor.

What if you pay cash for purchases, graduated from school with the benefit of grants and scholarships, and have been fortunate enough to pay cash for cars? The fact that you are extremely money-savvy is not rated on the credit report. Only loans and credit balances are addressed. If you fall into this category, documentation proving that your utility bills, insurance payments and rent are paid on time each month is acceptable.

Understanding Your Credit Report

Credit reports are similar to report cards because they score your performance on how well you manage your credit. Only now you have more than a good scolding from your parents to fear; your "grade" could keep you from obtaining your home loan. Before authorizing us to obtain a copy, you may wish to order one for yourself, evaluate your scores, verify the information is correct, and attempt to fix any items that could "get you in trouble". Only businesses with "legitimate business need" and "permissible purpose" as dictated by federal law and those you legally authorize in writing can access to your report. Businesses that qualify include credit

grantors, collection agencies, insurance companies, and employers. Contact any of the bureaus below for a copy. Credit report fees vary depending on which bureau you choose.

Equifax

PO Box 105873
Atlanta GA 30348
(800) 685-1111
www.equifax.com

National Consumer Assistance Center

P.O. Box 2002
Allen TX 75013

Experian

(888) EXPERIAN
(888) 397-3742
www.experian.com

Trans-Union

PO Box 390
Springfield PA 19064
(800) 916-8800
(800) 851-2674
www.transunion.com

A credit report contains information on your past credit experience. It includes identification information like your name, previous names used, employment, credit, public record information, and the names of those who have requested and received a copy of your credit report. Your credit report does not contain information regarding your race, religion, health, driving record, criminal record, political affiliation, or income.

Your credit report can be broken down into two components. The first is your actual credit history including every loan you have obtained and credit cards issued along with the balances and your payment history. It will also list any delinquencies that have been filed against you. Check this section very closely. Mistakes can be detrimental when figuring the second component - your credit score. We recommend you check your credit report often so that it's accurate when you need it. People often learn that they are victims of identity theft and fraud only after ordering a copy of their credit report. The last thing you want to hear when applying for a home loan is that an imposter halfway across the country funded a vacation to Tahiti on your good credit. Carefully verify all information is correct and double check three important things.

- The credit report contains your information only, and not information of someone with the same or similar name or social security number
- If a delinquency was reported to the credit bureaus, make sure to resolve the issue and that the resolution appears on the report
- If you disputed a claim or late payment pattern and submitted an explanation to be included in your report (and you should), your statement of dispute should be included as part of the report

Finding an error or negative information in your report is not the end of the world. There are actions you can take to correct the situation. You have a right to dispute the accuracy or implications in your report. When you submit a dispute directly to the credit bureau, the credit bureau is obligated to investigate the item in question and provide a resolution within a reasonable period of time, generally thirty days. Of course the disputed information must be verifiable. For example, the credit bureau may not delete a record of late payments if you fail to show that your payments were timely made. However, you can provide a written explanation of

the cause and that statement should be included in all future inquiries. At your request, the credit bureau will send an amended report to any recipient (other than an employer) within the last six months. Any record that cannot be verified should be deleted, wrong information should be corrected, incomplete records should be completed, and accounts that were once past due but now current should state so.

As a consumer, your right to review and dispute credit report findings is protected by the Fair Credit Reporting Act (FCRA). This act also details who can access your report and how you are informed of requests made. Rights granted under the FCRA include:

- Your right to receive a copy of your report containing all information included and available at the time of your request
- Your right to know the names of the individuals or businesses that have received a copy of your report in the past year or two years if the inquirer was an employer. Any company that denies your application must provide the name of the bureau that provided the report
- Your right to receive a free copy of your report if your application is denied due to credit report findings. Your request for the free report must be made within 60 days of the rejection.
- Your right to add an explanation of any derogatory claims to your credit report to be included in all future reports

The second component of your credit report is your credit score. A statistical program analyzes your payment history, the number, type, and age of the accounts and loans you have, late payments, collections, and outstanding debt. Your information is compared to others and the probability that you will repay the loan is determined. The analysis results in your credit score. Scores are solely based on the data included in your credit report, therefore, your income, savings, and amount of down payment are not factors in computing your score.

FICO® is the most popular of these scores and is an acronym for and developed by Fair, Isaac & Company, Inc. Typically, FICO® scores are considered objective, consistent, accurate, and fast; however, their exact formula is an unknown industry secret. Any factor considered discriminatory is not included.