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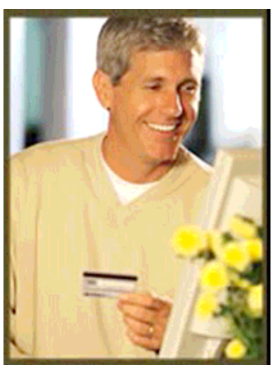
Your Credit Score

What It Means to You as a Prospective Home Buyer

Introduction



The subject of credit scoring has become an increasingly hot topic, and for good reason. For many years, the general public only associated the concept of credit scoring with the need to purchase high-ticket items such as a new car or a home. Today, credit scoring goes much further. Your credit score can affect your ability to get a good rate on commodities such as car insurance, cell phones, or even determine whether or not you get the job that you want. Indeed, the financial snapshot provided by the credit score has also become a gauge for many employers, especially those who seek to place employees in a position of financial responsibility.

The History of Credit Scoring

The credit score system used today has evolved since the 1960s. It was originally designed to provide lenders with financial profiles on consumers who wished to borrow money. The lenders' biggest concern was whether or not an individual had the ability to repay a loan, and establish what percentage of risk might be involved.

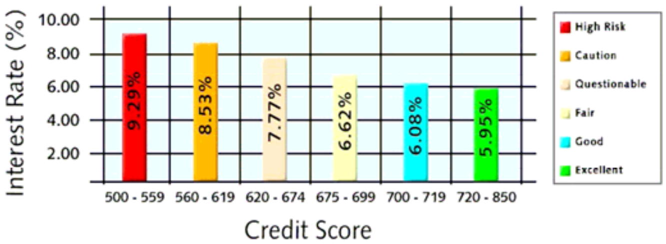
Congress passed the Fair Credit Reporting Act in 1971 to establish guidelines for fair practices in regard to the use of credit scoring. This law was designed to promote accuracy in reporting and protect the privacy of consumers. In light of the increased use of credit scoring and a growing fear of identity theft, recent legislation has been passed to further protect Americans and improve consumer awareness.

The Fair and Accurate Credit Transactions Act of 2003 (sometimes referred to as The FACT ACT or FACTA) was signed by President George W. Bush on December 4, 2003. This amends the Fair Credit Reporting Act, and provides each American the ability to obtain one free credit report every 12 months from each of the three main credit reporting agencies (CRAs); Equifax, Experian and TransUnion. Those bureaus have created a central web site, www.annualcreditreport.com, to accommodate Americans who wish to obtain copies of their credit report. Phase in of access to free credit reports from West Coast to East Coast nationwide will be complete as of September 1, 2005. See www.annualcreditreport.com for a zoning map.

Why Your Credit Score is So Important

The credit-scoring model seeks to quantify the likelihood of a consumer to pay off debt without being more than 90 days late at any time in the future. Credit scores can range between a low score of 350 and a high score of 850. The higher the score, the better it is for the consumer, because a high credit score translates into a low interest rate. This can save literally thousands of dollars in financing fees over the life of the loan.

Only one out of 1,300 people in the United States have a credit score above 800. These are people with a stellar credit rating that get the best interest rates. On the other hand, one out of every eight prospective homebuyers is faced with the possibility that they may not qualify for the home loan they want because they have a score falling between 500 and 600. The following chart illustrates how an underwriter interprets the credit score in terms of risk, and how the interest rate is affected as a result. Mortgage lenders consider a score of 700 or above to be very good.



The Five Factors of Credit Scoring

Credit scores are comprised of five factors. Points are awarded for each component, and a high score is most favorable. The factors are listed below in order of importance.

1. **PAYMENT HISTORY − 35% IMPACT**
   Paying debt on time and in full has the greatest positive impact on your credit score. Late payments, judgments and charge-offs all have a negative impact. Missing a high payment will have a more severe impact than missing a low payment, and delinquencies that have occurred in the last two years carry more weight than older items.

2. **OUTSTANDING CREDIT BALANCES − 30% IMPACT**
   This factor marks the ratio between the outstanding balance and available credit. Ideally, the consumer should make an effort to keep balances as close to zero as possible, and definitely below 30% of the available credit limit when trying to purchase a home.

3. **CREDIT HISTORY − 15% IMPACT**
   This portion of the credit score indicates the length of time since a particular credit line was established. A seasoned borrower will always be stronger in this area.

4. **TYPE OF CREDIT − 10% IMPACT**
   A mix of auto loans, credit cards and mortgages is more positive than a concentration of debt from credit cards only.

5. **INQUIRIES − 10% IMPACT**
   This percentage of the credit score quantifies the number of inquiries made on a consumer's credit within a six-month period. Each hard inquiry can cost from two to 25 points on a credit score, but the maximum number of inquiries that will reduce the score is ten. In other words, 11 or more inquiries within a six-month period will have no further impact on the borrower's credit score. Note that if you run a credit report on yourself, it will have no affect on your score. See additional explanation of Credit Inquiries at the end of this handbook.

Remember that the credit score is a computerized calculation. Personal factors are not taken into consideration when a credit report is generated. It is merely a snapshot of today's credit profile for any given borrower, and it can fluctuate dramatically within the course of a week.

How Does a Low Credit Score Affect My Interest Rate?

Lenders estimate your ability to pay back money based on your credit score. The risk factor they take on is built-in to your interest rate as a financing fee . Therefore, a low credit score results in a higher interest rate, higher monthly fees, and a higher amount of interest being paid over the total life of the loan.

Referring back to our chart, a borrower with a credit score of 620 would be questionable to an underwriter. While the lender may agree to provide financing, the increased interest rate is factored into the monthly payment. The following chart illustrates the difference in the amount of interest paid over the life of the same loan with three different credit score scenarios.

A borrower who increases his or her credit score from 620 to 720+ can potentially save $601 per month on mortgage payments, $7,214 per year, and approximately $216,432 over the life of the 30−year loan.

30−Year Fixed Rate with a Principal Loan Amount of $250,000			
FICO SCORE	**APR**	**MONTHLY PAYMENT**	**INTEREST PAID**
Above 720	5.71%	$1,453	$272,928
620 to 719	5.796% to 7.84%	$1,466 to $1,807	$277,845 to $400,381
Below 620	8.452% to 9.234%	$1,914 to $2,054	$438,957 to $489,365

SOURCE: Credit Resource Corp., How Much Does a Low Score Cost You? http://www.creditresourcecorp.com

How Does the Underwriter View My Score?

If you are considering a home purchase, it is in your best interest to make every effort to increase your credit score, especially if you know you have issues you should be dealing with. It is often the case that people are not aware of bad marks on their credit record until they apply for financing for a major purchase, such as a home.

As part of the loan process, we run a credit report for you. But you can take advantage of the opportunity to get a free credit report from each of the three main CRAs: Equifax, Experian and TransUnion. As a sidebar, you can choose to get the free report from all three bureaus at the same time, so you are aware of what information each bureau has collected. Another option is to pull your credit report from one agency, and reserve the right to get your free reports from the other two CRAs as you work on improving your credit standing.

We believe it is best to have the full overview up front. Different CRAs have different methods of calculating these scores, and may also have different information contained within their findings. Consider the adage, "Why jump over nickels to pick up pennies?" If additional reports are needed within a 12−month period from any of the three CRAs, the cost is extremely minimal compared to the potential savings that can be realized by an improved credit score, and if you run a credit report on yourself it will not affect your own score as an inquiry.

The underwriter who is making the decision as to whether or not you should get the loan you are asking for will generally look at the scores generated from all three CRAs. Typically, the score will not be the same from all three reports, and the underwriter will consider the middle score as a barometer.

Disputing Errors On the Credit Report

If you are in the process of reviewing your credit reports, the first thing to do is make sure that the information contained within the reports is correct. In June 2004, The U.S. Public Interest Research Group published the results of a survey it con ducted involving 200 adults in 30 states to test the validity of credit reporting. Their findings were as follows:

- Twenty-five percent (25%) of the credit reports contained errors serious enough to result in the denial of credit;
- Seventy-nine percent (79%) of the credit reports contained mistakes of some kind;
- Fifty-four percent (54%) of the credit reports contained personal demographic information that was misspelled, long-outdated, belonged to a stranger, or was otherwise incorrect;
- Thirty percent (30%) of the credit reports contained credit accounts that had been closed by the consumer but incorrectly remained listed as open.

SOURCE: U.S. Public Interest Group Research; *One In Four Credit Reports Contains Errors Serious Enough To Wreak Havoc For Consumers*, US PIRG Press release, 06/17/04
http://uspirg.org/uspirgnewsroom.asp?id2=13650&id3=USPIRGnewsroom

If you find that you have errors on your credit report, follow this procedure to correct those errors.

1. Make a copy of the report and circle the items you are questioning. Keep your original copy for your own records.
2. Prepare a letter to the CRA that provided you with the report in question, and request to have the erroneous item(s) removed. If you have proof of payment for an item in question, include a copy of that documentation.
3. Prepare a letter to the creditor reporting the problem, especially if you feel you are a victim of fraud or identity theft. Inform the creditor that you

are disputing an error reported to the CRA, state why the claim is inaccurate, and include any relevant documentation to prove your point.

4. Send your correspondence via certified mail.

You should receive a response from the CRA within 30 to 45 days. If the error has been corrected, they will send you a fresh copy of your credit report at no charge to show you that the item has been removed. They will also send a corrected report to any entity that received a report that contained errors within the last six months. If you cannot have a disputed item removed, you have the right to include your side of the story on the credit report. Your statement should be a concise explanation (100 words or less) as to why you are challenging the item in question. From that point on, this notation will be included in your credit report as long as the item in question remains on your report.

What If I Have No Credit?

A borrower will sometimes not have enough credit references to obtain the loan they wish to secure. In this case, start by opening small lines of credit that report to one of the three major CRAs, an d make purchases that can be paid off easily. If you do not already have a checking or savings account, open one. Your bank or credit union may be able to provide you with a credit card account once you have established a history with them as a customer.

Ask your family or spouse to add you to their credit card account. By adding your name to an established line of credit, you can ride on their coattails, so to speak, and gain points by using that person's credit history.

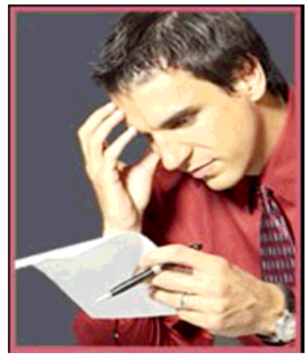
It is also wise to start saving money for the down payment on your home. The lender will look at your application more favorably when you are able to come to the table with a 20% down payment. Bear in mind, there are certain loan programs available that permit a percentage of gift money for down payment, which can come from a relative, or even the person selling the home.

Dealing with Credit Challenges

Unfortunately, a person with a bad credit score is often in this position because he or she lacks the discipline to pay bills on time.

Of course, there are exceptions where unforeseen circumstances come into play, such as health complications, or loss of employment.

There are a few things that may be able to bring your score up so that you can secure a better interest rate on your mortgage loan.



Example 1: Distribute debt from revolving credit.

Our borrower, Mr. Jones, has a credit score of 664. He has five credit cards, but his Visa account is almost maxed out. His other four credit cards have relatively low balances. Mr. Jones moves the part of the debt from the Visa account to the other major credit card accounts, thus distributing the debt more evenly over the five cards. This changes the ratio of debt to available credit (which has a 30% impact on the overall credit score), and Mr. Jones successfully raises his credit score by 20 points with very little effort.

Example 2: Transfer outstanding balances to new accounts.

Our borrower, Mr. Smith, has only two credit cards, but both are pushing the limit of available credit. Mr. Smith opens two new credit card accounts, each with a credit limit of $5,000. He transfers part of his existing balances to the new accounts. While he has acquired two new cards that have no established history, the greater impact is the change in the ratio of debt to available credit.

Ultimately, experts say that it is best to have two to five credit cards, and no more than that. You should keep your balances as low as possible. If you have a credit account with a zero balance, do not close the account.

Instead, make a small purchase so the card shows up as an active account on your credit report, and you will be awarded points for your long-term credit history.

These are just a few tips to consider as you seek to obtain mortgage financing. But you should always know that as your loan originator, my job is just beginning when you close your loan with me.

As soon as you begin to make mortgage payments on time and in full, your credit standing will begin to improve. My team and I will continue to monitor rates on your behalf and alert you to the opportunity to refinance into a loan program with a lower interest rate as soon as possible.

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Our long-term goal is to help you build a strong financial future.

Do's and Don'ts During the Loan Process

When you fill out a credit application, we run a credit report for the underwriter. Each lender and each loan program has different guidelines they must follow. You should not do anything that will have an adverse affect on your credit score while your loan is in process. We know it's tempting...If you're moving into a new home, you might be thinking about purchasing new appliances or furniture, but this is really not the right time to go shopping with your credit cards. You'll want to remain in a stable position until the loan closes and give us the opportunity to help you lock in the best interest rate we can possibly get for you.

Here is a handy list of do's and don'ts that you should adhere to after your loan application has been submitted to the lender.

DON'T APPLY FOR NEW CREDIT OF ANY KIND – If you receive invitations to apply for new lines of credit, don't respond. If you do, that company will pull your credit report and this will have an adverse effect on your credit score. Likewise, don't establish new lines of credit for furniture, appliances, computers, etc.

DON'T PAY OFF COLLECTIONS OR CHARGE–OFFS – Once your loan application has been submitted, don't pay off collections unless the lender specifically asks you to in order to secure the loan. Generally, paying off old collections causes a drop in the credit score. The lender is only looking at the last two years of activity.

DON'T CLOSE CREDIT CARD ACCOUNTS – If you close a credit card account, it can affect your ratio of debt to available credit which has a 30% impact on your credit score. If you really want to close an account, do it after you close your mortgage loan.

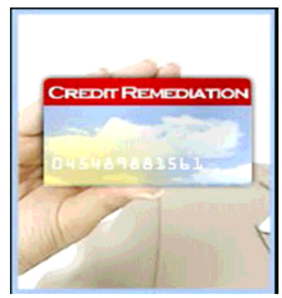
DON'T MAX OUT OR OVER CHARGE EXISTING CREDIT CARDS – Running up your credit cards is the fastest way to bring your score down, and it could drop up to 100 points overnight. Once yo u are engaged in the loan process, try to keep your credit cards below 30% of the available credit limit.

DON'T CONSOLIDATE DEBT TO ONE OR TWO CARDS – Once again, we don't want you to change your ratio of debt to available credit. Likewise, you want to keep beneficial credit history on the books.

DON'T RAISE RED FLAGS TO THE UNDERWRITER – Don't co-sign on another person's loan, or change your name and address. The less activity that occurs while your loan is in process, the better it is for you.

DO JOIN A CREDIT WATCH PROGRAM – Your bank, credit union or credit card company may be able to provide you with a free credit watch program that can alert you to any changes in your credit report. This can be a safeguard to help you intervene before the underwriter sees a problem.

DO STAY CURRENT ON EXISTING ACCOUNTS – Late payments on your existing mortgage, car payment, or anything else that can be reported to a CRA can cost you dearly. One 30-day late payment can cost anywhere from 30 to 75 points on your credit score.



DO CONTINUE TO USE YOUR CREDIT AS YOU NORMALLY WOULD – Red flags are easily raised within the scoring system. If it appears you are diverting from your normal spending patterns, it could cause your score to go down. For example, if you've had a monthly service for Internet access billed to the same credit card for the past three years, there's really no reason to drop it now. Again, make your changes after the loan funds.

DO CALL YOUR LOAN CONSULTANT – If you receive notification from a collection agency or creditor that could potentially have an adverse affect on your credit score, call us so we can try to direct you to the right resources and prevent any derogatory reporting to credit bureaus.

* SOURCE: Based on The Top 10 Credit Do's and Don'ts During the Loan Process, provided by Credit Resource Corp.

http://www.creditresourcecorp.com

Credit Remediation

If you feel you would prefer to work with a credit repair service rather than try to tackle credit repair issues on your own, please give us a call so we can help you sort through your options. We will do our best to refer you to a reputable credit remediation service and guide you in the right direction once we have the opportunity to review your credit report with you.

The Federal Trade Commission (FTC) regulates credit repair services and provides free information to help consumers spot, stop and avoid doing business with credit repair companies that are not reputable. Their web site is located at http://www.ftc.gov.

You can also write to the FTC to request a copy of their free brochure titled Credit Repair: Self Help May Be Best, which includes information about credit clinics. The address to write to is:

Federal Trade Commission
Sixth and Pennsylvania Avenues, NW
Washington, DC 20004

If you have any complaints regarding your credit report or credit remediation services that you wish to report to the FTC, contact them at:

Federal Trade Commission
Consumer Response Center, Room 130
600 Pennsylvania Avenue, NW
Washington, DC 20580

Let me help you get the best rates possible for your credit score! Call me today to schedule a free consultation. Direct # 763−559-2686 or Cbrusven@msn.com

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Credit Inquiries

What is a credit inquiry?

A credit inquiry is an item on a credit report that shows a business with a "permissible purpose" (as defined under the federal Fair Credit Reporting Act) has previously requested a copy of the report.

Not all inquiries count toward your FICO score.

When you check your credit report, you may notice that a number of credit inquiries have been made, sometimes from businesses that you don't know. But the only inquiries that count toward your FICO score are the ones that result from your applications for new credit.

Inquiries that count toward your FICO score.

There is only one type of credit inquiry that counts toward your FICO score. When you apply for a mortgage, auto loan or other credit, you authorize the lender to request a copy of your credit report. These types of inquiries, prompted by your own actions, appear on your credit report and are included in your FICO score.

Inquiries that don't count toward your FICO score.

Your own credit report requests, credit checks made by businesses to offer you goods or services, or inquiries made by businesses with whom you already have a credit account do not count toward your FICO score. Credit checks by prospective employers also do not count. These types of inquiries may appear on your credit report, but they are not included in your FICO score.

Your FICO score is not affected when you check your credit.

Checking your credit reports regularly to be sure they are accurate and error-free is a good idea. In fact, maintaining accurate credit reports is a part of good credit management, which can help to improve your FICO scores over time.

You can order all three of your credit reports with FICO scores at www.myFICO.com . You can also order your credit reports from the credit bureaus. Either way, your FICO score is not affected by your own credit report checks—which are voluntary.

How inquiries are factored into FICO scores.

There are five types of information used to calculate a FICO score at any given point in time. Each type of information counts as a percentage of a total FICO score:

Payment history	= 35%
Amounts owed	= 30%
Length of credit history	= 15%
New credit	= 10%
Types of credit in use	= 10%

These percentages are based on the importance of the five categories for the general population. For particular groups, such as people with relatively short credit histories, the importance of the categories may differ.

Inquiries are a subset of the "new credit" category shown above, which accounts for 10% of the total FICO score. Their importance depends on the overall information in your credit report. For some people, a given factor may be more important than for someone else with a different credit history. In addition, as the information in your credit report changes, so does the importance of any factor in determining your score. What's important is the mix of information, which varies from person to person, and for any one person over time.

Inquiries may or may not affect your FICO score.

A FICO score takes into account only voluntary inquiries that result from your application for credit. The information about inquiries that can be factored into your FICO score includes:

- Number of recently opened accounts and proportion of accounts that are recently opened, by type of account.
- Number of recent credit inquiries.
- Time since recent account opening(s) by type of account.
- Time since credit inquiry(ies).

A FICO score does not take into account any involuntary inquiries made by businesses with whom you did not apply for credit, inquiries from employers, or your own requests to see your credit report.

For many people, one additional credit inquiry (voluntary and initiated by an application for credit) may not affect their FICO score at all. For others, one additional inquiry would take less than 5 points off their FICO score.

Inquiries can have a greater impact, however, if you have few accounts or a short credit history. Large numbers of inquiries also mean greater risk: People with six inquiries or more on their credit reports are eight times more likely to declare bankruptcy than people with no inquiries on their reports.

What happens when you apply for credit.

When you apply for credit, you authorize the lender to ask for a copy of your credit report. This is how voluntary inquiries appear on your credit report.

The inquiries section of your credit report contains a list of everyone who accessed your credit report within the last two years. The report you see lists both voluntary inquiries, spurred by your own requests for credit, and involuntary inquiries, such as when lenders order your credit report to offer you a pre-approved credit card.

Will my FICO score drop if I apply for new credit?

If it does, it probably won't drop much. If you apply for several credit cards within a short period of time, multiple inquiries will appear on your report. Looking for new credit can equate with higher risk, but most credit scores are not affected by multiple inquiries from auto or mortgage lenders within a short period of time. Typically, these are treated as a single inquiry and will have little impact on the credit score.

What to know about "rate shopping."

Looking for a mortgage or an auto loan may cause multiple lenders to request your credit report, even though you're only looking for one loan. To compensate for this, the score counts multiple auto or mortgage inquiries in any 14-day period as just one inquiry. In addition, the score ignores all mortgage and auto inquiries made in the 30 days prior to scoring. So if you find a loan within 30 days, the inquiries won't affect your score while you're rate shopping.

Improving your FICO score.

If you need a loan, do your rate shopping within a focused period of time, such as 30 days. FICO scores distinguish between a search for a single loan and a search for many new credit lines, in part by the length of time over which inquiries occur.

Generally, people with high FICO scores consistently:

- Pay bills on time.
- Keep balances low on credit cards and other revolving credit products.
- Apply for and open new credit accounts only as needed.

Also, here are some good credit management practices that can help to raise your FICO score over time.

- Re-establish your credit history if you have had problems. Opening new accounts responsibly and paying them on time will raise your FICO score over the long term.
- Check your own credit reports regularly, and before applying for new credit, to be sure they are accurate and up-to-date. As long as you order your credit reports directly from the credit bureaus, or through an organization authorized to provide credit reports to consumers, such as myFICO®, your own inquiries will not affect your FICO score.

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