

How to Overcome Bad Credit

One of the most important things in determining if someone is qualified for a home mortgage loan is credit. Yet most people know very little about how credit agencies work or more importantly, how a person can improve his credit, under our consumer protection laws.

One of the first things that a real estate agent should do when working with a buyer is help the buyers obtain a copy of their credit report. Under the Fair Credit Reporting Act passed in 1971, everyone has the right to see their credit report for only \$10-\$20 in most areas. They should also obtain their credit score from the credit bureau, as credit scores are now used widely by lenders. (See pages 129E & F for info on credit scores). Once they have received their credit report and credit score, they can make corrections for any errors or duplications or "common name" errors. **They can put their side of the story into the credit file on disputes they have with creditors. They are also free to go directly to any merchant showing unfavorable credit and try to get the credit changed to a positive entry by pleading their case.** If the buyer's credit report does not show all of the positive credit that they recall, they can invest some money to upgrade their report to include these other positive credit experiences not shown on the report.

The first step to obtain a credit report is to call a local credit agency in the phone book under credit bureau or credit reporting agencies. Most have a taped message telling you what procedures to follow to get your report. They require the individual to provide the following information:

- 1) Full name
- 2) Spouse's full name, if married
- 3) Your social security number and spouse's number
- 4) Your present address and previous address covering the past 5 years
- 5) Your date of birth
- 6) Your driver's license number
- 7) Your signatures on the letter requesting the report
- 8) A check or credit card for \$10-\$20

NOTE: Some agencies allow the individual to order a credit report with a credit card. If it is not convenient to go to a local credit bureau, you may call in or mail the above information directly to: Experian, P.O. Box 2106, Allen, Texas 75002, 1-888-397-3742. Equifax P.O. Box 740241, Atlanta, GA 30374, (404) 885-8000, 1-800-685-1111. Trans Union 1-800-888-4213.

Have the buyer go directly to the local credit bureaus office and ask for the credit report on the spot. Once they receive their report they should go over it line by line, looking for inaccuracies, common name errors and duplications. Also make sure that closed accounts, that is, accounts that have been paid off are shown as paid off, not as open accounts. If they find an error, they can take immediate action to correct the error. **They must write out exactly what is in error and what the correct information should be.** For example, "City National Bank is not an open account, it was paid in full on 7/17/02." Give or send the credit agency proof of pay off with your letter contesting the item. **If you have a dispute on an item, you are allowed to enter your side of the dispute in 100 words or less into your credit report.** This way, the buyer's side of the dispute would show up in the credit file on future credit reports, which could allow a lender to approve a mortgage loan for that buyer, when they would have turned them down without the written explanation in the credit report.

Once the buyer has noted all errors, written out all disputes and collected the necessary documentation to back up his claims, send this information back to the credit bureau by "Certified Mail" or hand deliver it and get a written receipt that it was received. The credit bureau is obligated to contact all creditors where mistakes were made and the creditor must respond in writing within 30 days. **If the creditor fails to correct the error or respond within the 30 days allowed and there is no way to double check the credit report's authenticity they have to REMOVE the item in question from the buyer's credit report. This is the Federal Law with regard to Fair Credit.**

Chapter 13 bankruptcies which occurred more than seven years ago and were satisfactorily completed may be removed from the credit file, if the consumer requests removal. Chapter 7 bankruptcies cannot be removed from credit files for 10 years. Some retail firms will remove "9s" from a credit report if the consumer negotiates with the retailer and pays off the outstanding debt.

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Many of you have now figured out how many of these companies that promise to clean up any borrower's credit are able to do so. **Through persistence!** If you contested your bad credit enough times, it is very likely that sooner or later the creditor giving you bad credit would not respond within the 30 day period and be compelled to remove the bad credit. After any corrections were made on a buyer's credit report, the buyer has the right to demand that the credit bureau send corrected copies of the report to all creditors who received the incorrect reports for the last six months. This includes the other major credit bureaus.

Having had many years in the mortgage business as a lender, I know that if a buyer is willing to put forth some effort, he can substantially improve and clean up his credit. **One way that I have found is to go directly to the creditor reporting derogatory credit and explain that you are trying to buy a house, but with this bad credit you will be turned down.** Many creditors are moved enough and humane enough to soften a report or delete it altogether when asked to do so, face to face! For homebuyers that lack credit due to age or preferring cash to the use of credit cards, I recommend going to the telephone company, electric company, gas company and previous landlords or other creditors and asking for letters of credit. These letters of credit can be incorporated into the buyer's loan application and credit report with the mortgage lender. These positive credit references can allow a buyer to be approved for a loan when no credit is found on credit reports.

Another important credit enhancing technique is the ability to write convincing letters explaining why a buyer's credit is not perfect. That is, if the buyer was out of work, went through a divorce, had medical problems or other sound reasons for the less than sterling credit, the buyer needs to explain this in writing. The better the explanation, the better are the buyer's chances for loan approval. In fact, it would seem the more hardships the buyer has had to endure, the more likely the underwriter is to approve the loan.

If your buyer's credit can not be cleaned up to an acceptable level for loan approval on a mortgage, tell him that making an increased down payment may be very helpful in getting a loan approval. Most lenders will take a borderline buyer when the down payment is substantial, as the down payment acts as a deductible in a foreclosure. That is, the more the buyer has to lose, the less likely that a foreclosure will occur. In addition, if there is a foreclosure the buyer would lose his down payment before the lender would lose a cent. Many lenders stretch the income and debt ratio tests for a buyer if the down payment is increased. FNMA allows 33% income and 40% debt ratio with 25% down. VA and FHA lenders waive some lender requirements when down payments of 5% or more are made, due to the decreased risk of foreclosure losses.

If your buyer can not clean up his credit to a sufficient level for mortgage loan approval on a "prime" loan he may seek out a "subprime lender". The subprime lender will charge a higher interest rate and require a higher down payment than a prime lender would, but they may be willing to make a loan. The buyer's credit score and the number of late payments will determine what interest rate and how much down payment would be required. See page 129 E & F regarding credit scores and subprime loans.

If your buyer can not obtain subprime financing due to poor credit, you may seek out loans that do not require any credit checks or approvals. Many VA or FHA mortgages can be assumed without any qualifications. The buyer does not even have to have a job. His credit can be the world's worst. He could have recent bankruptcies or foreclosures and he can still assume some VA and FHA mortgages. Which ones you ask? Any VA loan made before March 1, 1988 is fully assumable without qualifications of any kind! FHA loans made before December 1, 1986 are fully assumable again after one year for owner-occupants to assume and two years for owner-investors to assume. If the FHA loan was made after December 15, 1989, the buyer must qualify to assume the loan. **VA loans made after 3/1/88 may be assumed with qualification by non-veterans or may be purchased without qualification on installment sales, such as a lease purchase or contract for deed. VA loans made after 3/1/88 may be assumed without qualification in instances where the vet is facing a foreclosure, if the property is not sold. (See VA assumption policy pages 15-A & 15-B).**

Seller financing is another option, as a seller can make a mortgage to a buyer without requiring him to qualify for it. A seller who owns his home free and clear has "Federal Lender Status" which means he can make any mortgage which a lender offers, but without the restrictions of institutional lenders. The seller makes the mortgage and has the right to foreclose if payments are not paid as agreed.