

Tips on Helping People Improve Their Credit Scores

Purchasing a home is the largest investment that most people undertake in their lifetimes. Since credit scores are a very important factor in determining what terms the buyer would receive on the financing in the purchase of a home, homebuyers should know what they can do to improve their credit scores.

The first thing one must do is to get his credit scores from the three major credit bureaus, Experian, Equifax and Trans Union, as there are three different scores. Each of these bureaus has slightly different information on each individual, since they sort of compete for the information. Hopefully, the scores are similar or grouped. Scores of 650, 660 and 640 are similar and would indicate no major discrepancies. However, scores of 650, 660 and 570 would indicate that the credit bureau reporting the 570 score has incorrect information that needs to be corrected, as this low score could lower the consumer's average credit score. It could also be the one used by an automobile dealer or other creditor, dramatically effecting the consumer's terms.

- **The homebuyer should locate any error or errors contained in the credit file and immediately challenge the incorrect information in writing by filling out a dispute form located in the back of the credit report.** This written challenge or dispute should be sent via fax or e-mail directly to the credit bureau, with a request for a receipt that they have received the written challenge. Once the credit bureau has received the written challenge, they must notify the retailer of the challenge. Once notified, the retailer has 30 days to respond in writing. If they fail to respond within the 30 day time limit, the consumer is to be given the benefit of any doubt. Once the error has been corrected the credit score would reflect the correction. The fallacy with this system is it often takes 30-45 days to get a problem corrected and reflected in the credit score. That is why we recommend that the consumer/homebuyer get his credit scores 45-60 before closing on a home loan. That way he will have adequate time to correct errors and they have adequate time to improve his credit scores.
- **Do not make inquiries for additional credit such as department stores, automobile dealers, furniture, jewelry stores or apply for additional credit cards.** You do not want a lot of recent inquiries on your credit reports as they lower your score. Each inquiry can lower your score 3-5 points. It is OK to shop lenders, as long as they are similar entries within a 30-day period, they are to be treated as only one inquiry. (This category is 10% of your credit score.)
- **Pay off as many outstanding balances owed on credit cards and other month-to-month obligations as possible and cease using your credit cards until after loan closing.** This lowers you debt ratio and lowers the percentage of available credit used. The lower the percentage of available credit used, the better the score. It is a fact that people that are overextended on their debts do not pay as timely as those who are not overextended. Make sure that your balances do not exceed 30% of your available credit line, as your credit score will be lowered. If your balance exceeds 75% of your available line of credit, your credit score will decline substantially. (This category represents 30% of your credit score.)
- **Pay your obligations timely.** Pay before the due date or pay electronically or by check draft, to avoid late payments due to poor mail service. One late payment of more than 30 days in the past year can be more detrimental to a credit score than a bankruptcy that occurred more than 5 years ago! This is due to the weight given to the most recent time frame in credit scoring. (This category represents 35% of your credit score and it is the one that we can do the least about before loan closing.) If a consumer has a late payment of more than 30 days in the past year, he can raise his credit score by paying timely for the next six months. The score will climb substantially after one year of paying timely.
- **Do not use one credit card to pay off another during the 30-45 home closing period, as both credit card balances could show up increasing the available credit used and increasing the debt ratio.**

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- **Those with tarnished credit should obtain secured credit cards.** Many banks offer secured credit cards where the consumer gives them \$500 and they provide a credit card with a \$500 credit line. If paid timely, this will help re-establish the consumer's credit and credit score.
- **Never go to consumer counseling services when you are applying for home mortgage loans or if you wish to have a good credit score.** This action alerts the credit bureaus that you are unable to pay your bills and may have an effect on your credit score much like a bankruptcy would.
- **Demand that negative credit more than seven years old be removed from your credit report.** The only item that should be on your credit for more than 7 years is a chapter 7 bankruptcy.
- **To obtain good credit scores one must have a lengthy credit history.** This explains why older people generally have higher credit scores than younger people. It is important for young people to establish credit as soon as possible and commit to paying timely. All they have to do is to obtain good credit scores is pay the minimum payment as agreed. Credit bureaus are now accepting alternative credit information, such as letters from landlords, telephone companies, power companies and others, so that people who have few credit histories on their credit report can begin building good credit scores. (This category represents 15% of the credit score.)
- **Your credit score does not go down when you check your own credit or a bank does a credit scan on you, to determine if they want to offer you a credit card or other loans.**
- **In cases where relatives are willing to provide gifts to help with a home purchase, a relative can give a large gift that can be used to wipe out debts and improve credit scores.** Most relatives know that they can give gifts for the down payment or closing costs to purchase homes, but few know that they can improve their relative's credit scores and ability to qualify. Present estate gift laws allow relatives to give \$13,000 per year to as many people as they want. A couple can give \$26,000 tax free and one couple could give another couple up to \$52,000 per year. These gifts could be used to wipe out some or all of the debts. A reduction of all debts would lower the available credit used, increasing the credit scores and lowering the debt ratios. The majority of home buyers rejected for loans are rejected because they are over-indebted. Caution: If relatives wish to give gifts to reduce debts, thus improving credit scores, the debts should be paid off at least 30-45 days prior to home loan application, allowing time for posting the debt payoff and the rise in credit scores.
- **Another situation where relatives could help other relatives qualify for mortgage loans would be to provide gifts to buy down the mortgage rate, either permanently or temporarily.** That is, a gift of \$5,000 to buy the interest rate down would lower the interest rate approximately 1% for the entire 30 years of the term, for each \$100,000 of loan amount. It is easier to qualify for a mortgage at 5% than 6%. The same \$5,000 would be enough for a 3-2-1 temporary buydown, which would lower the initial interest rate from 6% to 3%. Once again, it is easier to qualify at 3% than at 6%. Few relatives know that they can provide gifts to buy down the rates and help their relatives qualify for higher loan amounts.
- **If the homebuyers credit score is not sufficient to obtain the home mortgage loan with the terms that they desire, relatives with better credit scores could act as co-borrower's, to insure that the owner-occupant can obtain better loan terms.** Many lenders allow non-occupant relatives to team up with occupants to obtain high ratio mortgages. CAUTION: The occupant borrowers must have decent credit and be paired up with people with very good credit for this to work.

your potential home buyers, as well as giving them credit scoring information found on pages 129-E-H, in this finance guidebook. This information on credit scoring would allow the potential home buyers to increase their credit scores, to get better terms and would allow you to give them some valuable information, that they will hopefully remember when it comes time to purchase a home.