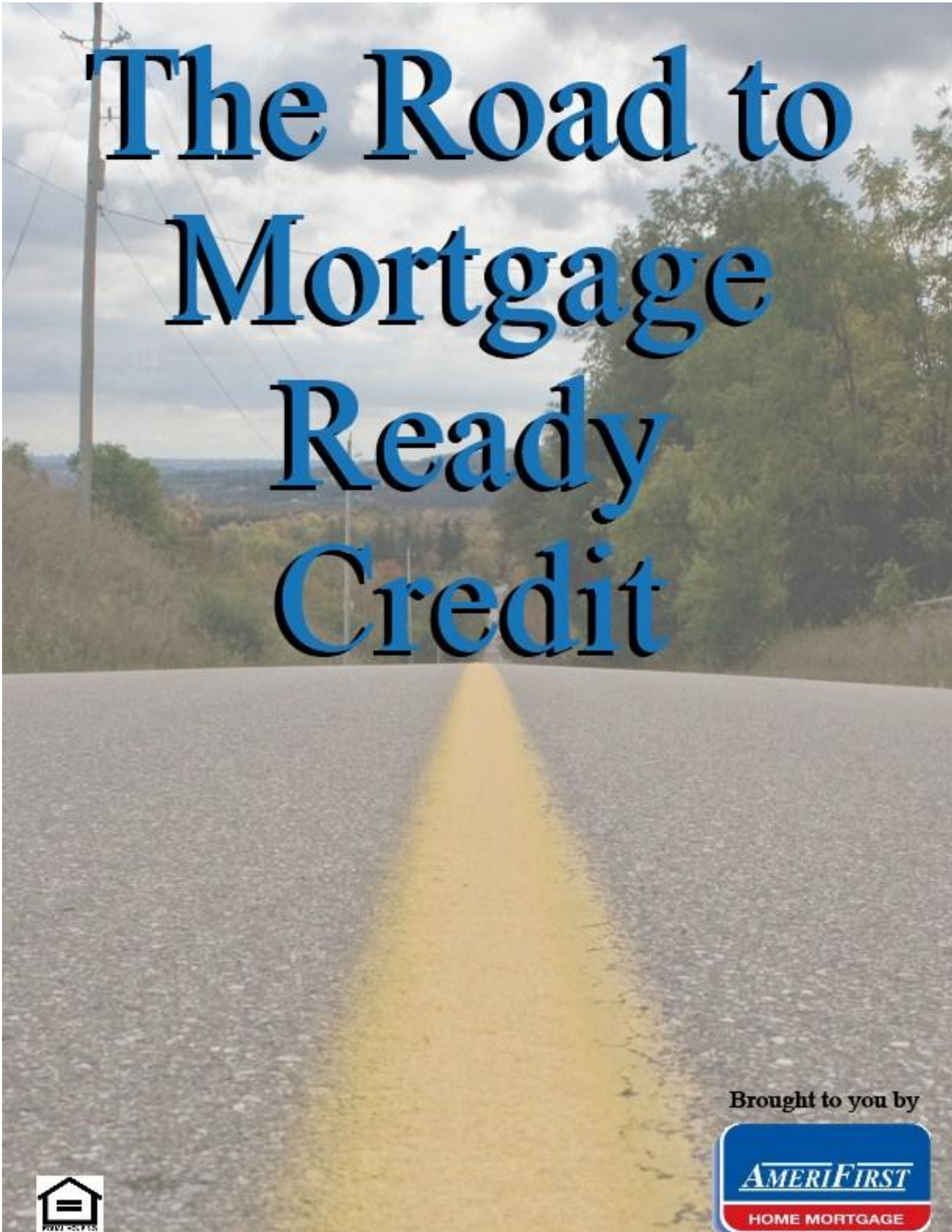
The Road to Mortgage Ready Credit



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Curbing Credit Concerns

Get Your Credit Mortgage Ready

What is Credit?

What Makes Up a Credit Score?

Credit Reports: Why More Than One

Trigger Leads: Scam or Legitimate Tool?

Credit Freeze: More Than Putting Cards in the Freezer

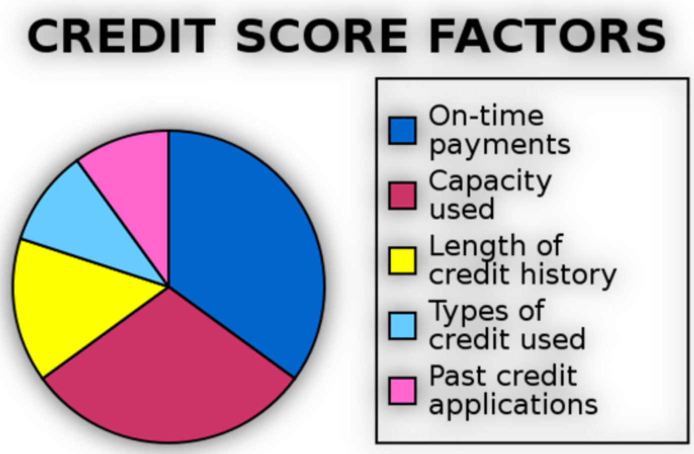
Credit Reports and Your Rights

What Makes Up a Credit Score?

Anyone looking for a loan will be affected by their credit score. Your score will give you access to financing for a house, a car, college tuition, store credit and more. A higher score will put you in a lower risk category of borrowers. A lower score will lead to higher interest rates and fees. So it's important to understand what goes into a credit score.

On-Time Payments: 35%

Paying bills on time has the biggest effect on credit scores. Late payments and judgments have a major negative impact. Recent delinquencies (in the last 2 years) carry more weight than older items. During the mortgage process, every point can affect your interest rate. Be sure to discuss any financial move, like paying off debt, with your mortgage consultant.



Capacity Used: 30%

Also called a debt ratio, this is the outstanding balances on your credit lines. It marks the difference between your available credit and how much you've used. Keeping the outstanding balance below 30% of the maximum is key when considering a mortgage in the next 6 months or less.

Length of Credit History: 15%

Lenders want to see a track record of credit history. A longer history of solid payments and credit makes you a stronger borrower.

Types of Credit Used: 10%

Just like you want a diverse investment portfolio, a mix of credit is desirable. A mix of auto, credit cards and mortgages is better than just credit card debt.

Past Credit Applications: 10%

Inquiring on your credit report often can impact your score. In the span of a year, each inquiry (up to 10) can impact your score as much as 5-to-30 points, depending on the credit reporting service. So it's good to wait on pulling credit until you're ready to act.

If you have more questions on credit, feel free to ask. Call or email us anytime.

Credit Reports: Why More Than One?

Tighter lending restrictions from mortgage giant Fannie Mae suggest lenders consider a second review of an applicant's credit report just before closing. The reason: a borrower's credit profile may change between the first credit report review and the closing date.

Does This Affect the Mortgage Process?

Pulling a second credit report potentially impacts someone who makes a purchase on credit after the loan application is filed. This could delay the closing, increase your interest rate or closing costs or decrease your loan amount. Worst case scenario: your loan could be denied (even thought it was approved based on the first credit review).

Best Practices During the Mortgage Process

Keeping the possibility of a second review in mind, make some common-sense decisions during the mortgage process.

- Use credit sparingly
- Don't apply for any new credit
- Don't pay off collections
- Don't max out or overcharge credit cards
- Don't consolidate credit cards into one card
- Try not to change jobs

These are just a few things to keep in mind during the mortgage application process. If you have any questions on "credit behavior" talk to your mortgage consultant right away.

Photo courtesy of foxbusiness.com

Trigger Leads: Scam or Legitimate Tool?

The mortgage industry has taken its lumps in recent years. Risky lending and a few "bad apples" spread bad reputations quickly. Another negative aspect is "trigger leads." It is possible for a company to know who is in the market for new financing. The major credit agencies are allowed to flag files when someone applies for a mortgage, and can also sell this private information with no recourse. Companies can buy personal information like names, phone numbers, mortgage histories and FICO scores, then solicit your business unwarranted.

Legally there is no recourse for this sketchy sales tactic. This business practice gives mortgage professionals a bad name. It's nothing that we do here at AmeriFirst Home Mortgage. We do not buy lists, and we do not sell, trade, rent or give away any personal information. While we can guarantee this, we cannot guarantee that another company will not buy a list that you are on. Applying for a loan, including a mortgage, could potentially get you on a sold list. But there is something you can do to protect your privacy.

What You Can Do

One step you can take as a consumer is like the National Do Not Call List, but for credit. The website **Opt Out Prescreen** allows you to opt out of "firm offer lists." The website describes its purpose as this:

> *Under the Fair Credit Reporting Act (FCRA), the Consumer Credit Reporting Companies are permitted to include your name on lists used by creditors or insurers to make firm offers of credit or insurance that are not initiated by you ("Firm Offers"). The FCRA also provides you the right to "Opt-Out", which prevents Consumer Credit Reporting Companies from providing your credit file information for Firm Offers. If you choose to Opt-Out, you will no longer be included in firm offer lists provided by these four consumer credit reporting companies.*

As you consider taking the step of buying a home, and making one of the largest financial decisions of your life, it's important to work with a trusted mortgage professional. Let us know how we can help.

Photo courtesy of seishun17

Credit Freeze: More Than Putting Cards in the Freezer

Taking care of identity theft before it happens can be tough. It seems there's always a new way thieves can get to your personal information and use it to their advantage. One tool that can help is called a "credit freeze" or "security freeze."

How it Works

Let's say someone ends up with enough information to try to open an account under your name. If you have a credit freeze in place, the thief will be stopped before they can ruin your credit. One of the first steps to opening an account is to pull a credit report. Creditors can't pull a report though if you have a security freeze in place. Since most lending institutions will not open a line of credit without this report, your identity is relatively safe.

When you decide it's time to apply for credit, you can lift the freeze with a PIN you activated. So remember, if you're in the market for a car loan, a mortgage or a new credit card you will need to lift the credit freeze before you apply.

You can explore more about credit freeze on the Financial Privacy Now website.

If there's any other questions we can answer, contact a mortgage consultant today.

Credit Reports and Your Rights

You have a right to know what's on your credit report. Thanks to the government, you actually have the legal right to get your credit report once a year from each of the 3 credit bureaus. That means you can actually check your credit report 3 times per year.

Stagger Reports

While you're entitled to one report from each of the credit bureaus every year, it's a good idea to space them out over the course of that year. For instance, start the year with a report from Experian. Four months later check in with TransUnion. Then another 4 months later, retrieve your report from Equifax. This way you're keeping a constant watch over your credit history and the safety of your identity (This is simply an example. You can check with any of those credit bureaus in any order you'd like).

Don't Pay For It

Obtaining your credit report should be free. Quite often, the commercials you see and hear talk about free credit reports. However, many of these actually require a fee or enrollment in order to see what's yours: your credit history. Instead, the government helped set up the website Annual Credit Report so getting your report is actually free.

It's Your History, Not Your Score

Checking with Annual Credit Report will give you your credit history. It does not give you your FICO score. If you want to find out your actual credit score, you will need to pay a service fee. However, you have an option. Talking to a mortgage consultant at AmeriFirst Home Mortgage about credit will include determining your score.

What is a Credit Score?

How Your Credit Score Affects Your Mortgage

I Paid My Bills. Why Did My Score Drop?

5 Steps to Improving Credit

6 Myths, Mistakes and Misconceptions About Credit

How Your Credit Score Affects Your Mortgage

The basic rule between mortgages and credit scores is this: the lower the score, the higher the interest rate on your loan. A low score equates to high risk when it comes to financing. The FICO score range runs from 350 to 850 with 5 factors determining the score: payment history (35%), outstanding balances (30%), credit history (15%), type of credit (10%) and credit inquiries (10%).

There was a time when some lenders would issue a mortgage to borrowers with FICO scores in the 500-point range. Low scores back then could mean coming up with a larger down payment, or paying higher fees. Now scores that low will likely result in a denied mortgage. For details on what scores mortgage lenders are looking at today, it's best to talk to a mortgage loan consultant.

Improving Credit

Improving your credit score can be as easy as making payments on time for a set period of time. There are several things a borrower can do to quickly raise a credit score. One service we offer is consulting on credit reports to get you mortgage ready. In fact, we offer a free eBook we call our "Get Mortgage Ready Kit."

Talk to a mortgage consultant today to check your credit score and see where you stand. If there are ways to improve, we'll walk you through those steps. Whether it's your first house, an upgrade or a refinance, we can work together to get you mortgage ready.

I Paid My Bills. Why Did My Score Drop?

Seemingly innocent actions by a consumer can have unintended consequences on a credit score. Working with someone who has experience in the world of credit and finance can help keep your FICO score on solid footing. Even when you're working hard to keep your score up, you may inadvertently drop your score. Let's look at 4 reasons your actions could negatively impact your credit.

1. **One Day Late**. Paying a bill even one day late could get you slapped with a 30-day late notice. Creditors generally don't distinguish between one day and 30 days. Late is late in many financial company's eyes.

2. **Paying Off Old Collections**. An old collection on your credit report may not affect your credit score. Paying it off might actually bring the account "recent" and punish you with a lower credit score. While it may seem unfair, the credit scoring model puts more emphasis on your recent activity than your past. Paying off an old debt makes it look like it's new. Hold off on these until you talk to your mortgage professional.

3. **Paying Off a "Maxed Out" Balance**. If you max out a credit card, but pay it off at the end of the month, your score could still suffer. Maxing out an account adjusts your credit ratio. So even paying it off in the same month could end up showing your current status as "at the limit." This raises your debt-to-income level and lowers your credit score.

4. **Paying Off and Closing an Account**. Paying off debt is a good thing. But hold off on closing the account. Remember, there are 5 factors that go into determining your credit score. This means credit history and "types of credit" you could suffer a score drop if you close your account. After all, some of your biggest debt load could be your oldest.

Because credit is one of the most valuable tools you have at your disposal when it comes to the mortgage process, consider working closely with someone to make sure your credit score is stable and viewed as a good score. Let us know what other questions you have, and how we can help.

Photo courtesy of 123creditfacts.com

5 Steps to Improving Credit

Improving credit takes time and effort. It also takes patience. However, without taking that first step, your FICO score will never improve. Here's a look at 5 steps you can take right now to bump that score up a bit.

1. **Get Your Credit Report**. The first step in improving your score is understanding it. You have the legal right to get your credit report from each of the 3 credit bureaus once a year. Experian, TransUnion and Equifax are the 3 agencies. You can go to the website Annual Credit Report or call the company at 1-877-322-8228 to get a copy from each credit agency. But understand: this will not include your score, just your history. To get your score, you will need to pay a fee or talk to a mortgage consultant.
   - *Side note: When pulling your credit reports, it's a good idea to "opt out" of trigger leads. A company can find out who is in the market for new financing by contacting the major credit agencies. You could be flagged when applying for a mortgage or inquiring on your credit report. The website Opt Out Prescreen allows you to opt out.*

2. **Dispute Inaccuracies**. Look over the credit report and make sure the information is accurate. You can dispute anything you find that is untrue. Once notified of the inaccuracy, the credit bureau has 30 days to respond. If the information can't be confirmed, it should be taken off your report.

3. **Pay Your Bills On Time**. Even a day late can cause a major hit on your credit card score. Paying on time accounts for 35% of your FICO score. It's the highest-rated factor.

4. **Reduce the Debt You Have**. While it's easier said than done, bringing down the amounts you owe on credit cards and other accounts will have an impact. Take a look at your accounts, figure out how much you owe, and begin paying them down. Also, put the credit cards away and tighten the budget. Pay off the what you can, while paying at least the minimum payments on the rest of your accounts.

5. **Meet With Your Mortgage Consultant**. Knowing your credit history is the first step in improving your score. Knowing the FICO score is the next step. Talk to your mortgage consultant about your credit history and the score. We can help get you on the right track for that first mortgage, that upgrade or refinancing.

A great blog article on improving a FICO score with more suggestions. (this is not an endorsement of this website nor it's products or services)

6 Myths, Mistakes and Misconceptions About Credit

Securing a mortgage is one of the biggest transactions most people will ever enter into. Credit (and your FICO score) is very important when it comes to any loan, but it becomes paramount in something as long-term as a home mortgage loan.

Everyone's credit report is unique and has its own challenges and assets. But there are several generalizations that can be made about credit when it comes to first time home buyers. If you plan to buy a home in the next year or less, here are 6 credit mistakes to avoid.

1. **Maxing out credit cards.** Maxing out credit cards is one of the quickest ways to drop your FICO score. You could drop 100 points easily by doing this. Try to keep your balances below 30% of the available credit (especially during the loan process). A helpful tip: if you're considering paying down the balances, do it over all of your cards, not just one.
2. **Paying off old collections.** Paying off a collection will drop your score right away because of the "date of last activity" category. If you're going to pay off old debt, wait until after closing.
3. **Consolidating credit into 1 or 2 cards.** Consolidating may seem like a smart move, but it actually drops your score because on paper, it looks like you've maxed out the card you're moving the debt onto. Wait until after closing your mortgage.

4. **Closing credit card accounts.** Closing a credit card will actually appear as though your debt ratio has gone up in the eyes of FICO. It also affects things like length of credit history (a longer history is a good thing with credit). If you're set on closing a credit card account, wait until after closing or make sure it's the most recently opened account.
5. **Falling behind on existing accounts.** A simple 30-day late payment on things like mortgages and car payments can drop your FICO score anywhere from 30-80 points. Make sure you stay current on all of your accounts.
6. **Doing anything that will raise the red flag.** Other activities that raise the red flag include adding new accounts, changing your name or address with the credit bureaus or co-signing on another loan. It's better to have little activity on your credit report during the mortgage loan process.

One piece of advice important to remember: Don't tackle the credit issue completely on your own. Sometimes the task of improving credit can seem overwhelming. You may want to give up. However, talking to a trusted mortgage advisor can shed some light on baby steps you can take that you may not have thought of, so you can make small improvements.

What Improves Credit?

4 Steps to Rebuilding Credit Now

5 Quick Ways to Increase Your Credit Score

Sifting Through the World of Credit Repair Service

4 Steps to Rebuilding Credit Now

You've heard the stand-by advice that negative credit stays on your "record" for 7 years. While it is true that credit reports go back 7 years or more – public records like bankruptcy, judgments or tax liens can last up to 10 years – it doesn't mean that all is lost when it comes to rebuilding your credit. You have several options when it comes to making a positive impact over the next year. In fact it's possible that you could even qualify for a purchase or refinance in the next 6-to-12 months. Below is a look at 4 steps to get you on the road to recovery.

1. **Monitor your credit.** Get your credit report and look it over. Dispute any discrepancies. Then work with a professional to take the next step in improving your credit standing. Working with a mortgage consultant will get you started. Ask if your advisor knows a professional credit repair company they trust if you need more in-depth help on your credit history.
2. **Use credit cards sparingly.** Long-term credit cards show a good credit history (long history), which is 15% of your credit score. But use credit sparingly. Keep debt at least 30% below the limit in order to keep your debt-to-income levels manageable. Use your cards for items you can pay off at the end of the month, and make the payments on time. This can help build a strong credit history.

3. **Open a secured credit card if you don't have one.** The key to this step is **secured.** This means you deposit funds (often less than $500) into the account to begin with. It puts you in a low-risk category since you have skin in the game. Be sure to pay the bill on time every month, to show a stabile credit history.
   - Another option for some borrowers would include opening a credit account with a co-signer. Just remember, you and the co-signer are responsible for the debt. So if your partner makes bad decisions, you get punished as well. Also, "authorized user" doe **not** equal co-signer. Simply authorizing someone on an account in good standing has no impact on that users credit history.
4. **Talk to a mortgage consultant before making any debt decision.** In the months leading up to signing into a mortgage, any major credit activity should stop. This includes new debt, paying off old collections or closing accounts. It's important to talk to a mortgage consultant to make sure any activity you're considering will not negatively affect your credit score.

Getting ready for a mortgage – whether it's a refinance, your first home or a "next-step" house – can take time and effort. Talking to a mortgage consultant with experience in the world of credit will help get you on the right path. Let us know how we can help you today.

5 Quick Ways to Increase Your Credit Score

"All good things come to those who wait." The old English proverb is probably something we've all heard at some time. It even applies to credit history. Improving credit long-term will take time, patience and effort. However there are a few things you can do to get that FICO score on an upswing sooner rather than later.

1. **Tell Your Side.** Dispute inaccuracies on your credit report. If you think it's wrong or doesn't tell the whole story, you can defend your side for free, in writing or through the corresponding credit bureau's website.
2. **Know Your Limits.** Some credit card companies don't report your credit limit to the credit bureau's. Some card companies even have written policy to **not** report available credit. This makes it look like your card is maxed out every month, whatever the balance is. Remember, "amount owed" (debt ratio) is 30% of your FICO score. Make sure the agencies know your credit limits.
3. **Take Credit.** Some creditors will not report your information to the 3 major credit bureau's. When you have a good-standing account, it may not show up on your credit report. This is one reason your score could vary between the agencies. You can call the creditor to find out why your history is not being reported. While talking to the company, feel free to ask about a lower rate or higher credit limit. This can help debt ratios too (although be very careful to keep your actual debt low and make the payments on time).
4. **Balance the Credit Balances.** Paying *installment debt* (mortgage, car loans, student loans) improves your credit standing long term. Continue to make these important payments on time. However, paying down *revolving debt* (variable interest rate debt with an open-ended term and payments based on a percentage of the balance like credit cards or store credit) can cause a pretty decent jump in your credit score. One major key is keeping this debt below 30% of the credit limit. If you pay off a card, don't close the account. Varied credit and a history of credit both factor into your FICO score.
5. **Label Credit Correctly.** You know your credit history on a personal level better than anyone. Make sure your credit items are listed correctly. A home equity line of credit should fall under "mortgage," not "revolving credit." Bankruptcy can be devastating. Make sure if that's part of your credit history, that everything associated with that bankruptcy are reported with a zero balance. The important thing here is to speak up about your credit history. You are the best advocate for yourself.

Talking to a trusted mortgage advisor about your credit history and FICO score can also help get you on the right path for that mortgage loan. Let us know when you're ready to take that step.

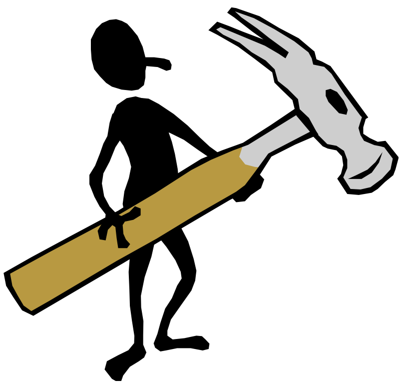
The 3 credit bureaus referenced are: Experian, TransUnion and Equifax. Annual Credit Report is a good place to start when it comes to obtaining your credit report (it will not include a score – talk to a mortgage professional for that).

Sifting Through the World of Credit Repair Service

You spam filter catches all kinds of junk email. “Credit repair” is likely one of the subjects relegated to the junk box. Credit repair has been given a bad name by scammers and poor business practices. However, it can be a valuable tool to get you on the road to financial stability.

Overwhelming Information

Search online for the term credit repair and you’ll find about 40 million results. It’s overwhelming, and it’s uncertain which results are legitimate, and which are “suspect.” It’s a lot for someone to sift through. However, you have another option. Working with a mortgage professional can be a great asset when it comes to credit issues. There is no magic formula, no silver bullet to fix your credit if you have problems. But working with a mortgage consultant can help.



Mortgage Professionals Know Credit

A trusted mortgage professional works in the world of credit everyday. Most of the solutions to credit mistakes boil down to common sense. From negotiating the debt to making on-time payments, your mortgage consultant should have a handle on what it takes to make the necessary improvements to your credit history and FICO score.

Repairing Credit Takes Time and Effort

Fixing credit issues will take 3-to-6 months or more, up to a year. Some more serious issues like identity theft or bankruptcy draw the process out to a year (sometimes more). The effort involved could include calling the creditors and asking for lower rates, leniency or possibly even a debt forgiveness deal if you pay an agreed amount. Again, there’s no magic potion when it comes to fixing credit. Be sure to monitor the progress. Having an understanding of your credit report is important when it comes to repairing it – you can’t fix what you don’t understand. Working with a mortgage professional can put you on road to credit recovery.

Other Credit Issues

Divorce and Credit

Identity Theft: A Quick Look

Identity Theft: Serious Protection

Divorce and Credit

Divorce is never easy. It is most often emotionally, physically and financially draining. However, as difficult as it is, your credit report does not care. Events during the divorce process can affect your credit for years to come. So it's a good idea to be prepared as divorce proceedings go forward. One key to remember: a divorce decree does **not** override any agreement or contract you have with a creditor. This means that no matter what the divorce paperwork says about who is responsible for paying off the debt, if your name is on the contract, you are also responsible.

Be Prepared

As the divorce moves forward, have the facts. Know your credit and get your paperwork organized. Get your credit report from each of the credit bureaus (Experian, TransUnion and Equifax). Make a complete list of all open accounts, with contact information for the creditors, payment date and amounts, type of account and name of the vested spouse.

There are two kinds of accounts, each requiring a different approach during divorce.

A *secured account* means there is an asset attached. The asset is likely a car or home. One way to take care of the risk here is to sell the asset, so there is no risk of default. Another option is to refinance the loan, with one spouse "buying out" the other.

The other account is an *unsecured account*, meaning there is no asset attached, like a credit card. It's important to know which spouse is the vested party on these accounts. An authorized signer/user may not actually be responsible for the debt. Be sure to work with your legal counsel on these financial matters.

Remember

Remember: during the divorce proceedings, it's important to continue to pay the bills on time in order to keep your credit history in good standing.

The Federal Trade Commission (FTC) has a good resource for divorce and credit.

Identity Theft: A Quick Look

Local newsrooms from television to newspapers see emails nearly everyday about another identity theft scam. Sometimes it's someone who's become the victim. Other times it's simply a warning that a new scam is out there. Some thieves are very clever, and it seems like there's no stopping them. However, there are a few things you can do to help curb your chances of falling victim to identity thieves.

- **Secured "Snail Mail."** Do not put important mail with sensitive information in your regular mail box (on the side of your house or at the end of your driveway). Use the post office mail boxes, or the post office itself.
- **Secured Social Security.** Your social security number is a vital piece of information. Don't keep it in your wallet. Keep it at home in a secure place. Also, Don't use it for a password or have it printed on checks.

- **Use the Shredder.** Important documents with personal information should never be simply thrown out. Use a cross shredder to keep this information private. Don't have a shredder? They cost about $50; or your office may have a shredding service (ask the boss about this). Also, many communities have "shred days." Search online for "community shred day" to find one near you.
- **Hold Back.** Keep information like birthday, income level, home address and phone number private unless necessary. Social networking is great, but many of these items should be kept off the internet, where anyone can find the information and use it.
- **Job Searches.** Be careful on job search sites. Read the privacy policies to make sure they don't sell personal information. Also, don't include your social security number on an online job application.
- **Common Sense.** Spam emails often want you to give personal information in order to "win something." Do not give out personal information. Most companies will not email you for your personal information. This is called "phishing" and is another form of a scam.

OnGuard Online has more tips to keep you safe on the internet and facts about phishing.

Identity Theft: Serious Protection

According to the Federal Trade Commission (FTC), somewhere around 9 million people in the U.S. get their identities stolen **every year.** That's not just overall, that's every single year. This can include someone using your identity to get a credit card, rent and apartment, take out loans or other lines credit and activate a cell phone. Any of these actions can have a major impact on your bank account and credit. Sometimes you won't even know it's happened until a debt collector comes calling. The average cost of this theft is about $4,000 and countless hours spent trying to clean up the mess left behind. Getting out in front of the problem is very important.

Knowing the Tricks

Knowing how to stop thieves begins with understanding how they work. Here's a look at some of the ways a thief can get to your identity.

- **Dumpster Diving**: going through garbage for bills or other documents with your personal items.
- **Skimming**: using special devices to store your credit/debit card information when processing the card.
- **Phishing**: pretending to be a financial institution in hopes of getting your information (can be through email, pop-up ads or other ways).
- **Change of Address**: using a change of address form to get your information sent to themselves.
- **Old-Fashioned Stealing**: stealing your wallet, purse or other personal items; pre-approved credit card offers; credit card statement and other items.

Protecting Yourself

Protection doesn't have to mean staying off the internet and only using cash and never carrying a wallet. It's taking some simple steps and monitoring your credit report. The FTC website offers great advice called Deter, Detect and Defend. Steps to deter include shredding documents, avoiding giving out personal information and never clicking on unsolicited emails. You can also help by choosing to opt-out of pre-approved offers with Opt Out Pre-Screen (it's like the Do Not Call Registry for mail). And be sure to monitor your credit report with Annual Credit Report.

Let Us Know How We Can Help

For more than 25 years, AmeriFirst Home Mortgage has helped first time home buyers realize the dream of leaving that rental behind, and owning a house. Whether it's conventional lending, an FHA program, VA loan, Rural Development or a 203k mortgage loan, the team at AmeriFirst is here to find the right mortgage for you. AmeriFirst is licensed to do mortgages in: Michigan, Minnesota, Wisconsin, Indiana, Ohio, Kentucky, Tennessee, North Carolina and Florida. There is sure to be an office near you. You can find the AmeriFirst office locator here.

We're easy to find.

The website: AmeriFirst.com

We're on other social media sites as well.

See interviews with our team and other videos.

Read the blog and keep up with the industry so you can be an informed borrower.

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