

K N O W L E D G E B A S E

The Importance of Managing your Credit

Your credit history has always played a very important part in how lenders review and approve you for a mortgage loan. And for more than 10 years now, your credit history is represented by what is commonly referred to as a **FICO** credit score. There are three Credit Bureaus in the United States who are responsible for keeping a file on every borrower. Your file contains a history of your credit transactions, as reported by the creditors that have extended you credit (i.e. Mortgage companies, credit card companies, car loans, etc.).



Not all creditors report to all three bureaus, which is why each credit bureau will have a different score for you. Both a husband and a wife will each have three credit scores, for a total of six scores. A mortgage lender will typically use the lower middle score for determining your credit worthiness.

Example:

Husband's scores: **675 – 695 – 701**

Wife's scores: **687 – 705 – 711**

In this example, a mortgage lender will use the score of 695 to determine credit worthiness.

As we work to provide you with a lasting mortgage solution, your current credit score will obviously be a factor that will help determine the options and strategies available to you. If it is determined that you are excluded from some of the better solutions and strategies because your score is below certain program guidelines, then it may be wise or necessary to work on improving your credit score using techniques that have proven their ability to change your score for the better. Your Mobium Mortgage Planner can be a valuable resource when looking to improve your score. Call us to better learn what specific actions are needed to improve your score, and to what degree those actions will cause your score to increase.

The Importance of Managing Your Credit

There are two very different ways to improve your score. You can choose to do the heavy work yourself, or you can choose to have a professional firm do it at a cost. In choosing to use a professional firm, you will be paying them to formally dispute many of the derogatory items found in your credit report with each bureau reporting the item (most items are reported on all three bureaus). Many of these professional firms will charge you per item, per bureau. Some charge you a reasonable flat fee after assessing the amount of work to be done. Because of the importance of one's credit score, this rather new industry is growing quickly. If you believe this is a good solution for you, call us today for our recommendation of firms that have proven their ability to lower our client's credit score. Please know that this solution will frequently take 60-90 days for the work to actually show up in a lower credit score.

If you chose to try to improve your scores on your own, you must first realize that it is virtually impossible to change your score "on the spot." But there are strategies available to make sure that when you apply for a loan your score is as high as possible. Some of these strategies will be used when errors are found on your credit report and others will be used to improve or maintain a good score.

First of all, make sure that each of the credit bureaus' information on you is consistent and up to date. When you call Mobium Mortgage, one of the first things we will do is to order a credit report from all three bureaus. If any inaccuracies are found, it will be necessary to formally (according to their strict instructions) dispute the inaccuracy.

(The following section will provide instructions on how to correctly do this without triggering costly "inquiries" or triggering a host of spammers looking to sell you something.)

Now let's explore other factors that may affect your score:

- If a number of credit reports are requested on your behalf (called "Inquiries") during a period that exceeds two weeks, your score goes down until time passes without any inquiries. Changes in the law though have made "consumer-originated" credit report requests not count as an inquiry. Also, a series of requests in relation to getting a mortgage or car loan is not treated the same as a number of credit card requests in a limited time. This is because the credit bureaus, and lenders, realize that people request their own credit reports to keep up with what's being reported, and consumers often times will attempt to shop around as they struggle to obtain a competitive rate.

The Importance of Managing Your Credit

- Unsolicited credit card solicitations in the mail don't count against your credit report, so don't worry.
- The two main components of your credit score are your **payment history** and the **amounts you owe**. Bankruptcy filings and foreclosures, which can stay on your credit report for as many as 10 years, will significantly lower your score. Realizing that bad things can happen to good people, it's never a good idea to take on more credit than you can handle.
- Late payments work against you in a big way. It's extremely important to pay bills on time. Your credit report will break out and report payments to creditors that are 30, 60, and 90 days late, and it keeps a record of how many times you have been late in each of those categories. It will also show the amount that remains unpaid.
- Don't "max out" your credit lines. Since the size of the balance on your open accounts is a significant factor, lower balances are better. Generally, we are told that you should try to never have a balance that is more than 50% of your credit limit.

It is said that by carefully managing your credit, it's possible to add as much as 50 points per year to your score.

How to properly correct your score

Credit report errors occur for a number of reasons but they can all have a negative impact on your eligibility for any future credit. It's important to stay on top of your credit report to avoid any mistakes made by the creditors and credit bureaus —Equifax, Experian and TransUnion. Some common reasons for credit report errors include:

- The individual has applied for credit under several different names (i.e. John Doe and Jonathon Doe)
- Someone made a clerical error in entering or reading information (names, social security numbers, addresses, etc.) from a handwritten application.
- Mix ups with common names. For example, there is likely more than one John Smith living in New York City and often there is the chance that information intended for one John Smith might appear on another John Smith's credit report as he applies for a mortgage.
- The individual gave an inaccurate Social Security number or the number was misread by the creditor.

The Importance of Managing Your Credit

- Loan or credit card payments were inadvertently applied to the wrong account.

No matter what the reason, the erroneous information could reflect poorly on your credit file, thus causing approval problems when the time comes to apply for a job or obtain a mortgage. If you find errors, no matter how small, be sure you get them fixed, and make sure that you contact all three credit bureaus as recommended below.

The Fair Credit Reporting Act (FCRA), enforced by the Federal Trade Commission (FTC), is designed to promote accuracy and ensure the privacy of the information used in consumer reports. Under the FCRA, both the credit reporting agency (CRA) and the organization that provided the information to the CRA (usually the credit card company) must correct any errors or incomplete information in your report. Current laws require that a disputed item be confirmed by the creditor within 30 days or be completely removed from your report. The professional companies offering to improve your score for a fee, will dispute every item on your report knowing that not all creditors will respond in that 30 day period. They have had very good success at getting items removed from their client's credit report (Call for our recommended list of reputable firms performing this service).

If you do encounter a mistake on your credit report, several steps need to be taken to correct the matter:

1. The first thing to do is get a copy of your credit report from each of the three major bureaus (CRAs): Equifax, <http://www.equifax.com>; Experian, <http://www.experian.com>; and TransUnion, <http://www.tuc.com>.
2. In a written letter, tell the CRA what information you believe to be inaccurate. Include copies (not originals) of documents that support your position. Provide your complete name and address, identify each item in your report that you dispute, and request "deletion" or "correction". Be sure to make copies of your dispute letter and its enclosures.
3. Send your letter by certified mail, return receipt requested, so you can document what the CRA received.
4. The Fair Credit Reporting Act mandates that all CRAs reinvestigate the items in question — usually within 30 days — unless they consider your dispute frivolous. They also must forward all relevant data you provide about the dispute to the credit card

The Importance of Managing Your Credit

company. After the credit card company receives notice of a dispute from the CRA, it must investigate, review all relevant information and report the results to the CRA.

5. If the disputed information is found to be inaccurate, the credit card company must notify all nationwide CRAs so they can correct this information in your file. Disputed information that cannot be verified **within 30 days must be deleted from your file**.
6. When the reinvestigation is complete, the CRA must give you the written results and a free copy of your report if the dispute results in a change. If an item is changed or removed, the CRA cannot put the disputed information back in your file unless the credit card company verifies its accuracy and completeness, and the CRA gives you a written notice that includes the name, address, and phone number of the credit card company.
7. In addition to the CRA, you should also write to the credit card company about the error. Again, include copies of documents that support your dispute. If you are correct — meaning the information you disputed is found inaccurate — the credit card company cannot use it again. Further, at your request, the CRA must send notices of corrections to anyone who received your report in the past six months.