

The Magic Number – Your Credit Score

By Jeff Cooper

Over the past couple of years, a number that has taken on much more meaning in the mortgage arena is your credit score. These are the numbers that the three major credit bureaus: Equifax, Experian and TransUnion, assign to you when evaluating your credit. To determine your credit score, the bureaus take into account factors such as payment history, amount owed on outstanding debts, length of credit history, new credit (number of recent inquiries) and types of credit used, such as credit cards, retail accounts, installment loans, finance company accounts and mortgage loans.

Originally, this number was used to determine your credit worthiness for obtaining credit cards. Now, it is also used to determine if you can qualify to finance a home, whether you are buying or refinancing. The scary fact about this number is that most people do not know what their credit score is until they try to finance a home; and sometimes they find out very late in the game. If the credit contains errors, they must be fixed by providing detailed documentation, not just the word of the individual, that the derogatory credit is being reported incorrectly.

Credit scores range between 400 and 850. Generally, anyone with a score below 500 will have a very hard time finding financing anywhere. Between 500 and 600 and your chance for financing improves; however, you are not likely to get the type of rate that is reserved for “A-credit” borrowers. If your score is between 600 and 700, you are eligible for most loan programs offered by most lenders. Finally, a credit score over 700 opens up almost all the doors to all types of financing offered by all lenders. While this is a good indicator, it is not etched in stone.

There are a few common situations that can have an impact on a credit score that most people are generally not aware of. A divorce can wreak havoc on a credit score. The ex-husband was supposed to pay this credit card, the ex-wife was supposed to continue making payments on the car. This is a very common situation that can have a damaging impact on credit.

Another common problem is generational. This involves a “junior” and “senior” where the father has poor credit and it reports on the sons’ credit report or the other way around.

Inaccurate data entry is another very common mistake and, unfortunately, among the most difficult to straighten out. A data entry clerk enters an incorrect social security number and that credit is now placed on an unsuspecting borrowers account. A simple letter stating that this is not your account will not

suffice. It's all about the documentation that can be provided.

So how would one go about straightening out credit issues and, more importantly, can you finance a home if your credit is not great? Let's start with straightening out credit issues. The burden of proof was once squarely on the shoulders of the consumer to prove that credit was being reported inaccurately. Recently, this has been shifted to the creditor. Upon the consumer writing a letter stating that there is an error, the creditor is required to respond within 30 days or the credit line must be removed. Again, this is the way it is supposed to work, but it does not always work this way. You have to be vigilant in your attempts to remove incorrectly reported information, and always get the names of the people that you spoke with along the way. If you are required to mail out information, make sure it is mailed out "certified" so you can provide evidence of when it was received.

Now let's focus on the question of being able to finance a home with fair to poor credit. The good news is that you can still finance a home regardless of your credit score. While you may pay a higher interest rate due to the risk that the lender is taking by financing your home, you can still get a loan. You will hear these types of loans referred to as "sub-prime" or "B-, C-, D-lending." Basically they are used to provide financing that generally might not be available to you while you repair the credit issues that have put you into this situation. Once the credit is cleaned up, you can simply refinance into an "A-credit" loan.

Remember that you are entitled to receive a free copy of your credit report from the three major credit bureaus once a year. It is strongly encouraged that you do this to prevent any issues from appearing on your credit report that you were not aware of when applying for a mortgage. The three major credit bureaus can be reached at the following numbers: Experian: 888-397-3742; TransUnion: 800-888-4213; Equifax: 800-685-1111.

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