



THE TOP 10 CREDIT DO'S & DON'TS



Under the new requirements of Fannie Mae & Freddie Mac, and even FHA in some instances, lenders may be pulling your credit report a second time 1-3 days before closing. What this means is that if your credit scores have dropped, if you have applied for other credit accounts, or your debt-to-income ratio has changed, you may no longer qualify for the rate that was underwritten. This re-pull of your credit reports and scores could delay the closing of your loan, and in worst case scenario – could cause denial altogether.

Following are some helpful tips to avoid the credit mistakes that many borrowers make during the loan process:

DO JOIN A CREDIT WATCH PROGRAM so that you can monitor your credit from shopping to closing. Pulling your own credit on-line WILL NOT HURT YOUR CREDIT SCORES. But here's what you need to know. Be sure to look for a company that uses a score range as close to 300-850 as possible (the lender score range). Some on-line companies use a range of 501-990 which will lead you to believe that your scores are higher than they really are. For a fee of \$9.95 p/month (first 30 days free) – you can pull your credit reports & scores from all three bureaus every 30 days at www.creditkeeper.com or www.privacyguard.com. And these companies will let you know instantly if there has been a change to your credit profile.

DON'T APPLY FOR NEW CREDIT OF ANY KIND. Including those "You have been pre-approved" credit card invitations that you receive in the mail or online. Every time that you have your credit pulled by a potential creditor or lender, you lose points from your credit score immediately. New Credit also brings a credit score down. Depending on the elements in your current credit report, you could lose anywhere from one to 15 points for one hard inquiry.

DO PAY BILLS ON TIME. Stay current on existing accounts. Under the new FICO scoring model, one 30-day late can cost you anywhere from 50-100 points, and points lost for late pays take several months if not years to recover.

DON'T PAY OFF COLLECTIONS OR CHARGE OFFS during the loan process. Unless you can negotiate a delete letter, paying collections will decrease the credit score immediately due to the date of last activity becoming recent. If you want to pay off old accounts, do it through escrow – at closing.

DON'T MAX OUT OR OVER CHARGE ON YOUR CREDIT CARD ACCOUNTS. In fact, **DON'T** charge on credit cards at all if possible. This is the fastest way to bring your scores down 50-100 points immediately. Keep your credit card balances below 30% of their available limit at ALL times during the loan process. And if you decide to pay down balances, do it across the board. Meaning, pay balances to bring your balance to limit ratio to the same level on each card (i.e. all to 30% of the limit, or all to 40% etc.)

DON'T CONSOLIDATE YOUR DEBT ONTO 1 OR 2 CREDIT CARDS. It seems like it would be the smart thing to do. However, when you consolidate all of your debt onto one card, it appears that you are maxed out on that card, and the system will penalize you as mentioned above in 5. If you want to save money on credit card interest rates, wait until after closing.

DON'T CLOSE ACCOUNTS. If you close a credit card account, you will lose available credit, and it will appear to the FICO that your debt ratio has gone up. Also, closing a card or installment account will affect other factors in the score such as length of credit history. If you HAVE to close an account for DTI - plan ahead of time. DO NOT close credit cards until after closing.

DON'T ALLOW ANY ACCOUNTS TO RUN PAST DUE -- EVEN 1 DAY! Most cards offer a grace period, however, what they don't tell you is that once the due date passes, that account will show a past due amount on your credit report. Past due balances can also drop scores by 50+ points.

DON'T DISPUTE ANYTHING ON YOUR CREDIT REPORT once the loan process has started. When you send a letter of dispute to the credit reporting agencies, a note is put onto your credit report, and when the underwriter notices items in dispute, in many instances, they will not process the loan until the note is removed and new credit scores are pulled. Why? Because in some instances, credit scoring software will not consider items in dispute in the credit score – giving false data to the lender.

DON'T DO ANYTHING THAT WILL CAUSE A RED FLAG TO BE RAISED BY THE SCORING SYSTEM. This includes the no-so-obvious things like - co-signing on a loan, changing a name or address with the bureaus. The less activity on a report during the loan process, the better.

MOST IMPORTANTLY – DO STAY IN CONTACT WITH YOUR MORTGAGE & REAL ESTATE PROFESSIONALS. If you have a question about whether or not you should take a specific action that you believe may affect your credit reports or scores during the loan process, your mortgage or real estate professional may be able to supply you with the resources you need.

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