

WHAT YOU NEED TO KNOW...

## QUESTIONS AND ANSWERS

### HOW DOES A MORTGAGE LENDER DECIDE TO LEND ME MONEY FOR A NEW HOME?

Your personal credit report is the single most important factor in determining whether you get approved for a loan. A substantial income and down payment will not always overcome bad credit. Creditors use a credit scoring system to determine whether you're a good credit risk. Among the many factors that they take into account, the creditor examines your credit history to look at your income, whether you currently own a home, how many years you've worked at your job and how promptly you've paid your bills in the past. Each factor is given points-the more points you have predicts to the creditor how likely it is that you'll pay back the debt.

### IF I'M TURNED DOWN, WILL THEY TELL ME WHY?

Although creditors are not required to tell you the factors and points used in the scoring system, they are required to tell you **why** you were rejected for credit. For example, if a creditor says that you were denied because you haven't worked long enough at your current job, you might want to reapply after you've been at the job longer.

### CAN I PURCHASE A HOME WITHOUT AN "A" CREDIT RATING?

Yes. It is possible to purchase a home with B, C, or below credit, but more often than not, you will pay higher interest rates on your loan and will need to put down a larger down payment. So although you can still get into a house without stellar credit, it's always best to do what you can to improve your credit situation.

### CAN INFORMATION BE CHANGED OR REMOVED FROM MY CREDIT REPORT?

Yes. Thanks to the Fair Credit Reporting Act, if information cannot be verified (even if the information is correct!) by the credit bureau within 30 days of your request, or if items on your report are not 100% accurate, they must be removed.

Don't dispute more than two items at one time, and then wait at least 60 days before disputing any more items. If you dispute everything in your file at one time, the bureaus will suspect that you are attempting credit repair.

**BUT IF I TELL THE CREDIT BUREAUS THAT I'M TRYING TO IMPROVE MY CREDIT HISTORY, WON'T THEY TRY TO HELP ME?**

Never tell the bureaus that you are attempting credit repair-especially if you plan to challenge them on the accuracy of the report. The federal law provides the bureaus with an escape and allows them to dispute your challenges as frivolous from the start.

**HOW ABOUT WRITING A LETTER EXPLAINING MY CREDIT PROBLEMS FOR THE CREDIT BUREAUS TO INCLUDE WITH MY CREDIT REPORT TO THOSE WHO REQUEST IT?**

The Federal Law allows you to include a 1000-word explanation of negative credit items right in your credit file, so that anyone who checks your credit can read "your side of the story." NEVER use this method! First, if anyone even reads your letter, no lender is going to accept your side of the story over another lender's. Second, your FICO score will be completely deleted. Your FICO score is an underwriting guideline that lender's use to determine what kind of risk you are. The higher your FICO score, the better risk you are-so if you have NO FICO score, the obviously, your chances of rejection are guaranteed.

If you feel the need to explain your circumstances to a potential lender, write a letter directly to them when you make the application for a loan. They are more likely to read it and take it more seriously.

**I TEND TO ALWAYS ACCEPT LOW INTEREST-RATE CREDIT CARD OFFERS THAT I GET IN THE MAIL, SWITCHING BALANCES ABOUT 4 TIMES A YEAR. CAN THIS HARM MY RATING?**

Yes. Creditors keep an eye out for consumers trying to open too many accounts in a short period of time. Although you may want to take advantage of low credit card interest rates, the only thing that creditor sees is applications for four new credit cards. This often can be viewed as negative. The safest route is not to make this a habit, but if it's too late, just don't apply for any credit for several months prior to applying for a mortgage.

**WHAT CAN I DO TO STOP GETTING THESE UNSOLICITED CREDIT CARD OFFERS?**

- Equifax Options                      800-556-4711
- Trans Union                              800-680-7293
- Experian Credit Marketing              888-567-8688

I'VE BEEN LATE SEVERAL TIMES IN PAYING OFF A CREDIT CARD ACCOUNT, AND LATELY, HAVEN'T PAID THEM IN FOUR MONTHS. I'VE STARTED GETTING REALLY HARASSING PHONE CALLS FROM A COLLECTION AGENCY AT HOME AND AT WORK. IS THERE ANYTHING I CAN DO TO MAKE THEM STOP CALLING ME—BESIDES PAYING OFF THE DEBT?

Yes. You can stop a collection agency from calling you by simply writing them a letter telling them to stop. It's the law! Your credit card company transferred your file to a collection agency when they couldn't get payment from you, so in your letter, tell the agency that you didn't borrow the money from them and you'll only negotiate with the original creditor. Also tell them that if they don't stop contacting you, you will inform the State Attorney General's Office and the local office of the Federal Trade Commission of the abuse. Ninety-nine percent of the time, the collection agency will send your file back to the original creditor and not bother with you any more.

This doesn't mean that you don't still owe the money, but it will stop the harassment. At this point, you can try the compromise technique discussed below with the credit card company.

IF I PAY OFF MY DELINQUENT ACCOUNTS, WILL MY CREDIT REPORT GREATLY IMPROVE?

Although it is a good idea to pay off your debt, you need to do it the right way.

If you're going to pay off your debt, you need to negotiate and compromise with the creditor. Tell them of your intentions to pay off the debt, with one condition—that all negative information be removed from your credit file. Demand a letter from the creditor agreeing that they will report to all three credit bureaus that the account is 1) paid, 2) current, and 3) never late.

WILL FILING FOR BANKRUPTCY START ME ON A CLEAN SLATE?

No. Once you file for bankruptcy, every creditor that you bankrupted out on will be listed on your credit file for 10 years. If you can get credit at all after this, you will pay much higher interest rates for all of those 10 years. And with most lenders, you won't be able to get a home loan for at least two years.

If you are considering filing for bankruptcy, contact your creditors first to see what sort of compromise you can reach. Tell them that you would like to establish a plan to pay off your debt—and start at a negotiating percent, like 10% of the debt (you'll probably have to go up to about 50%, but 10% is a good start). If they hesitate or begin to argue, inform them of your plan to file bankruptcy if an agreement can't be reached. Bankruptcy means that they won't get any money—this should make them a little more agreeable to reach a compromise.