5 Huge Credit Mistakes Home Buyers Make

And

The “3 C’s” You Need to Get Approved for a Home Loan

This Complementary Special Report

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Purchasing a home is a big commitment.

It can be an exciting experience.

It can also be scary.

Of the more than 17,000,000 mortgage applications in the U.S. each year, less than half will be approved for a loan.

We have helped thousands of consumers get approved for a mortgage loan. This report outlines the five biggest mistakes potential home buyers make.

If you follow the advice contained in this report, you will also learn how to avoid making those mistakes.

And as a special bonus, you will learn the three things lenders need from you to approve your home loan.

Mistake #1: Applying for a Home Loan with Unresolved Credit Issues

Many potential borrowers don't know what's in their credit files. They are sometimes even surprised when a lender denies their application due to late payments, collections, charge-offs, or public records.

Others suspect they may have damaged credit, but they don't realize it can cause their loan to be declined.

There is a lot of information available to consumers today about credit.

Some of it is helpful.

But much of it is outdated, misleading or *wrong*.

One of the best things you can do before applying for a mortgage is to obtain your own credit reports and scores from a reputable credit monitoring provider.

Pulling your own reports will not hurt your credit scores.

Carefully read through your reports from Equifax, Experian and TransUnion. Look for any obvious errors or accounts that you don't recognize. Read every notation and mark inconsistent dates and amounts.

Don't be surprised if you find errors. It is estimated that more than 80% of credit reports contain errors – and 25% of those are severe enough to cause you to be turned down for a loan!

Your next step is to contact a *reputable* professional to help you repair the damage. Or you can take the time to learn how to properly challenge the inaccurate information.

Keep in mind that clearing up credit issues will take a little time. It is best to start tackling errors as soon as you find them.

Mistake #2: Trusting the Credit Score

So you have reviewed your credit reports and checked out your scores from the three main credit reporting agencies.

Are your scores high enough?

Why aren't they all the same?

Which one will the lender use?

You may have been told that a mortgage lender wants a credit score of 640 or higher. (Score requirements vary between lenders and for different loan types).

If one of your scores is higher than 640, does that mean you will qualify for a mortgage?

Mortgage lenders look at the scores from Equifax, TransUnion and Experian. They will use the score that falls *in the middle.* It doesn't matter which credit reporting agency assigned the score.

Some people mistakenly believe that the lender will average your scores.

You're satisfied that your score will be good enough for a lender, so you apply for your loan, only to be turned down due to an insufficient score.

How can the score be so different?

We have heard it from clients over and over: "Why is the score I pulled so different than the score the lender sees?"

Most mortgage lenders use the FICO scoring system to determine your score. There are multiple generations of FICO scoring models, and many lenders don't know which one they are using.

If you obtained your scores from a credit monitoring company, you may have been given a score from a FICO competitor, such as a VantageScore.

These scores use the same credit information but calculate the scores on a different scale. Some VantageScores can be as much as 140 points different from your FICO score.

Mistake #3: Paying Off Collections

For better credit, pay your bills.

Makes sense, right?

If you have collection accounts on your credit report, your first instinct may be to pay them off. You may have been told by the collection agency, a lender or a real estate agent that paying off all your debt will raise your score.

But paying off collections could actually LOWER your scores.

If a lender objects to collections on your report, a professional credit repair service may be able to assist you with clearing them from your reports.

Mistake #4: Closing Credit Card Accounts

Revolving credit accounts are a major factor in credit scoring. FICO scores base approximately 30% of your score on the amount you owe.

Credit scoring models like to see a big difference between credit limits and amounts owed.

A quick way to raise your credit score is to pay down revolving debt. The percentage you owe should be under 30%, but it would be even better if it can be paid to less than 10%.

Remember that the account should remain open. If it is closed, then the credit limit drops to zero, and it will negatively affect your scores.

Mistake #5: Applying for Credit Before the Sale is Final

You've done everything right, and your lender has given you a pre-approval letter. You're excited to start shopping for your dream home.

One of the most common mistakes homebuyers make is making purchases for their new home before the loan is closed.

Applying for an account to purchase furnishings or other necessities for your new home can cause your approval to be revoked.

A few days before your closing is scheduled, the lender will check your credit again to make sure your credit profile has not changed. They are looking for credit score decreases, new accounts, or negative information that may have appeared on the report since the beginning of the loan process.

Applying for an account will result in an inquiry on your credit, which affects your score.

More importantly, the monthly payments for any new purchases will need to be factored in your debt-to-income ratio (DTI), which may change the terms of your approval.

Avoid the temptation to open any new accounts or make any changes to your credit situation before your mortgage loan closes.

Credit Can Be Complicated …

But it doesn't have to be intimidating.

A great credit professional can be a huge asset for you during the loan qualifying process.

Make sure you only deal with a trusted pro when getting your credit ready for the mortgage process.

At Score Restore, we offer an Audit/Analysis of your credit profile. This contains 10 – 15 pages of information based on your unique credit situation, along with an explanation of steps that should be taken to improve your credit reports.

To learn more about our Audit/Analysis, give us a call at 1-318-990-2693.

Now What?

Now that your credit is ready, here is what you need to know to make sure your mortgage application will be approved.

The Three C's of Lending

Lenders base their decision on "The Three C's":

- Character
- Capital
- Capacity

What is "Character"?

A lender wants to see your past credit and debt history. This history is used as a measure of your character in the eyes of lenders.

Have you shown a history of handling credit responsibly?

Have you exceeded your credit limits?

Have you made your payments on time?

Do you keep your balances low?

A lender cannot predict how you will handle your loan in the future, but your credit history is a great indicator of your general trustworthiness.

What is “Capital”?

The amount of cash flow and assets you have available is important to lenders.

They want to be sure that you have enough money for any required down-payment, closing costs, and prepaid items.

Bank statements and retirement account statements may be requested to prove to the lender that you have access to the money you need to purchase your home.

What is “Capacity”?

They also like to see a certain amount of available money that can be used to cover loan payments in the event of a hardship or emergency.

A lender will compare your income against the debts listed on your credit report, along with an expected new principal, interest, taxes and insurance payment (PITI) to determine your debt-to-income ratio (DTI).

If you have too many accounts with high payments, you may not be able to qualify for the mortgage amount you are applying for.

If you are self-employed, the lender will analyze your income tax returns to figure out your income. If you have a lot of deductions listed on your return, you may only get credit for your net income.

It is a good idea to do a little research and determine your DTI before having a lender pull your credit report.

Which "C" is Most Important?

The very first thing the lender will do is pull your credit reports. If the credit does not meet the lender's requirements, your application will quickly be declined.

Credit issues can be challenging, but they don't have to keep you from purchasing a new home.

Score Restore is available to answer your questions and help you clear up credit problems quickly so that you can purchase the home of your dreams.

Give us a call at 1-318-990-2693 to get started on your Audit/Analysis today!