

## Credit Scores and Mortgage Loans

*It's no secret that "easy credit" has caused a great deal of problems in the housing and mortgage sectors and mortgage loans are more difficult to get today than they were a year ago. All the more reason to understand what lenders are looking for when they evaluate your credit standing and make their decision about giving you a loan.*

### Here are the top 10 commonly held myths surrounding credit scores:

**Myth #1: A credit score is a credit report.** The credit report is a detailed listing of all debts and payments, going back throughout an individual's entire payment history, Ewing explained. For each entry, it shows the creditor's name, amount owed, the highest balance owed, the available credit, whether the account is open or closed (and who closed it), the number of late payments and whether the account is in default. A credit score is a number between 300 and 850 that is based on complex formulas incorporating all the data in the credit report.

**Myth #2: Those who are not in default do not need to check their credit report.** Everyone should check his or her credit report at least once a year (quarterly is not a bad idea in today's market) to be sure the report contains no erroneous information. Visit [www.annualcreditreport.com](http://www.annualcreditreport.com) for a free, no-obligation copy of the report.

**Myth #3: Checking a credit report damages credit.** Reviewing your own credit information has no effect on a credit score, Ewing said. Neither does a credit report review by a prospective landlord or employer.

**Myth #4: Everyone has one credit score.** Credit score calculations are compiled using data from three different credit scoring agencies (Equifax, Experian and TransUnion). The resulting scores might vary slightly among the three agencies if they have slightly different information, but they will be similar.

**Myth #5: Married couples share a credit score.** If all of a couple's accounts are joint, their scores will likely be similar, but each individual maintains a unique credit record and credit score. On the flip side, after a divorce, ex-spouses need to follow protocol to have creditors remove either party from a joint account.

**Myth #6: Shopping for a loan destroys credit.** It is true that "hard inquiries" - examinations of a credit score in preparation for extending credit can have a small negative impact on credit. However, credit bureaus take into account that consumers might inquire about a loan from multiple mortgage companies or auto lenders. "If multiple inquiries are received from the same type of lender within a 14-day period, the credit scoring companies do not count each inquiry against the borrower," Ewing

explained. But credit card account inquiries to open new accounts are counted individually.

**Myth #7: To improve a score, close unused accounts.** An important component of a credit score is available credit, or the unused credit that has been offered (on a credit card, for instance) but not used. Closing unused cards removes those available balances from the equation and can actually lower a credit score. Today, some banks are automatically lowering limits or closing accounts to reduce their own credit exposure. Individuals whose debt load is manageable should not experience an extreme effect on their scores.

**Myth #8: To boost credit quickly, just pay off bills.** Credit scores reflect performance over time. Scores will not change overnight.

**Myth #9: For a fee, vendors can fix a bad score.** Again, credit scores show historic behavior. Be cautious about companies that claim to “fix” or “repair” credit. “You yourself can remove inaccurate information,” Ewing said. “Beyond that, be aware that some companies send credit scorers a deluge of letters asking that they verify - and in the process, remove all past negative information. If and when truthful information is verified, however, it will quickly return to the credit report.”

**Myth #10: Never get help - it is too hard on credit.** It is true that credit counseling, debt settlement and bankruptcy all can cause significant black marks on a credit report. “If you are in real trouble, however, you can and should seek help,” Ewing urged. “Which option you choose will depend on the severity of your situation. Credit counseling can help to manage bills, and lower interest rates and monthly payments to creditors. Debt settlement firms can negotiate to lower the principal amount of your debts, typically providing a faster path to debt freedom than credit counseling. Bankruptcy, an even more serious alternative, should be discussed with a bankruptcy attorney.”

“Credit is important, but knowing the truth about credit might be even more important,”

*The moral of the story is to do everything in your power to manage your credit wisely. Pay on time, avoid maxed out balances and use credit sparingly. Oddly enough, it is important that all mortgage applicants obtain and use credit. The lack of credit history can cause difficulties similar to derogatory credit. Lenders need credit information in order to do a risk assessment. If you have recently come out of bankruptcy, it is critical to re-establish credit - but only that which you can manage.*

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