

How Credit Affects Your Mortgage Eligibility

Statistics show that a vast majority of Americans downplay the critical importance of good credit. But having a poor credit history in this area of your life can be the biggest obstacle to home ownership or mortgage refinancing.

Having poor credit can seriously impact your life. Many consumers don't realize the significance of good credit until it's too late. Despite having a great job and a high income, you can—and probably will—be denied a mortgage if your payment history is sketchy. ...It can immediately block your path to home ownership. Even those with bad credit who aren't rejected outright will likely pay higher rates. That can make a difference of tens of thousands of dollars over the life of a mortgage.

There are painless ways to avoid this hurdle. It begins with an understanding of how your credit rating works, and how it can affect your ability to borrow money.

Understanding Your Credit History

Here are some of the factors that contribute to your credit profile:

- How long you've had credit, and how often you've borrowed and successfully paid back those loans.
- If you've paid your bills in a timely manner, or if you've ever defaulted.
- How much credit you've been offered by stores, banks, or credit card companies, compared to the total amount you have used or now owe.
- Bankruptcy or foreclosure, even if they were caused by a spouse who may now be an ex-spouse.



Credit Repair

To ensure that you qualify for the mortgage you want, there are simple steps you can take to improve or preserve your credit rating:

- Order a copy of your credit report from one of the nation's three major credit reporting bureaus (Experian, Experian, TransUnion).
- Once you've examined the report, you'll have the chance to provide corrections, challenge inaccurate entries, or record your own explanations.

Your response will appear in the report when anyone requests it, so *your side* of the story will be told.

• Believe it or not, having no debt and no history of borrowing can be a problem. If you have no track record, creditors don't know how to evaluate your performance. Borrow enough to build up a credit history, and do it responsibly.

• Avoid using all of your available credit. If your credit card limit is \$2,000, for example, keep the card, but only use it to pay a monthly bill for \$50 or \$100. Pay off the whole balance before the due date each month. These small steps will help you climb the ladder to a higher rating.

Even if you have had trouble in the past, your current credit history has the potential to outweigh any past financial problems. Just start paying bills on time and following the other practices outlined above. Before long, you'll have solid credit and will be able to easily qualify for a mortgage loan.

If you have questions on how you can improve your credit score, contact our office today!

Credit Cards versus Debit Cards: Know the Differences!

Understanding tools like credit cards and debit cards is smart money management. It can keep you out of debt and actually save you money.

Consumer debt has reached unprecedented levels, producing a situation so dire that consumers are finally embarking on a crash course in financial literacy. One financial topic that's worth learning is the difference between credit cards and debit cards. Taking a close look at these two options may actually be the first step to take to reduce a mountain of consumer debt.

Tight budget? Choose the debit card

The key difference between the debit and credit card is speed. With a debit card, any purchase made is instantly deducted from your savings or checking account. With a credit card, you won't have to make a payment for 15 to 30 days *after* the purchase, and even then, you don't have to pay the entire balance.

The debit card is simply a plastic substitute for cash or a check. It only provides funds if you carry a large enough balance in your account. If you don't, the card won't work. There are some banks that allow you to exceed your balance and draw from an overdraft account, but you'll pay interest on any funds that you tap.

Debit cards are ideal for someone prone to compulsive shopping. If you've had consumer debt problems in the past, debit cards can help you keep your spending in check. The only negative is that you don't have access to the rewards programs and the security benefits offered by credit cards.

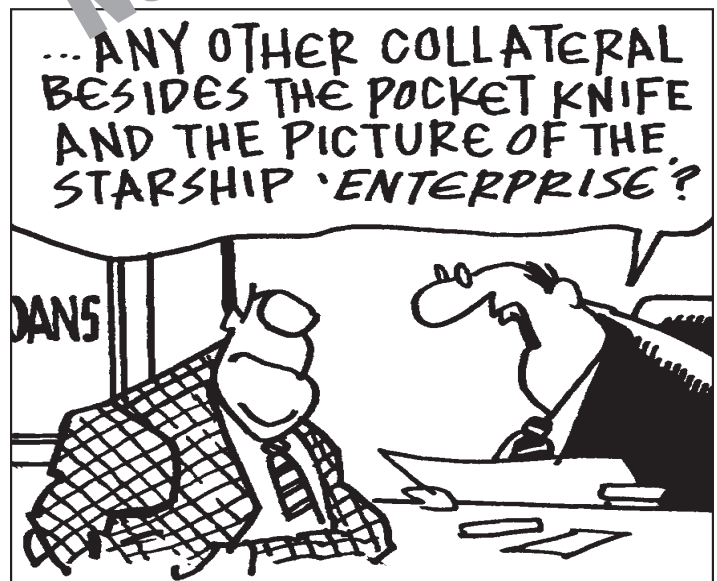
Benefits (and pitfalls) of credit cards

Credit cards offer a bevy of attractive benefits in comparison to debit cards. Most credit card companies offer rewards programs, which offer you points for every purchase you make. Points can eventually be redeemed for airline tickets, gifts, or even cash. You can tailor the rewards programs to your personal tastes.

When you use a credit card, you also have the luxury of being able to

delay the payment on an item. This gives you added flexibility when you're making purchases; you only need to pay the card's minimum balance, so it can effectively act as a short-term loan.

The smartest option is to carry a credit card, but treat it like a debit card: Pay off all your balances in full every month. It's the smart way to have your cake and eat it, too, as you'll have the flexibility of a credit card, but still be able to cash in on the rewards. The benefits of a credit card are lost, however, if you fail to make those minimum payments. And remember, picking the right option is meaningless if you don't have the discipline to make it work.



Is Finishing Your Basement Worth It?

You've fantasized about a mancave. Okay, maybe one of you has fantasized about a mancave and maybe one of you has some other ideas like having an in-home workout space, an office or maybe a playroom for the kids. No matter what you need the extra space for, a finished basement can almost always benefit you in the future when you decide to sell your home. Surprised? It's commonly said that putting money into finishing a basement isn't going to get you your best return on your investment. When you compare basement renovations to kitchen or bath renovations, your kitchen and bath will typically always increase your value by 1 or 1.5 times the amount you spend. And while that doesn't always stand true for finishing a basement, it's important to consider this:

A finished basement can be the difference between selling your home and not.

Particularly if you have 1, 2 or 3 bedrooms. Why? Often times a finished basement can be the substitute for the additional bedroom, office space or playroom that your buyer is looking for. Consider newlyweds with plans to have children in the future. A two-bedroom home may not fit what they're looking for. With the need for an office and an additional bedroom if they plan to expand their family, the space just might not work for them. However, a two-bedroom *with* a finished basement allows more possibilities for office space, play space or a guest room that could make the sale for them in the end.

So what are some benefits for you as the owner of the home?

Well, it's an investment that you can enjoy while you're in the home for the same reasons your buyer may like it. But it's also a big change by way of more space that doesn't involve a large amount of construction like adding a bedroom would. And, of course, it not only increases

the value of your home, but it broadens the pool of buyers who will consider it.

Your home is now more marketable. That's a change that's unlike any other renovation. Renovating the kitchen or bath increases the value of the home, the aesthetic appeal and at times the functionality, but it does not increase the number of shoppers particularly. If we consider a two bedroom home, a finished basement can attract families looking for two, three or even four-bedroom homes depending on how large the basement space is.



WHAT NEXT?

Finishing a basement can cost anywhere from \$10,000 to \$60,000 depending on what your plans are — shelving, home theater, etc. But also consider that the most important part of finishing a basement is simply making it functional. You don't need to overextend your budget in order to increase your pool of buyers. Sticking to drywall, paint, carpet, molding and making sure it's properly wired to accommodate electronics like computers and TVs should really be the main focus of the development in order to make your renovation most economical.

In a buyer's market, it's always important to consider renovations that will be economical, functional and broaden your pool of buyers. With the house shopping season now well under way given the start of summer, stay on your toes as a homeowner and always consider yourself a seller even if you are not currently selling your home.

For more information on finishing your basement with the goal of adding more living space for you, your family, and your potential future buyer, check out www.doityourself.com

From the Inside: Four Mortgage Questions

- 1. "What will a lender look at when I apply for a mortgage?"**

Lenders consider many factors in evaluating your loan application, but they usually focus on four critical areas:

 - **Income & Debt:** How much money you make and what other bills you have to pay helps your lender determine whether you can afford to make mortgage payments.
 - **Assets:** The lender needs to make sure you have enough money to cover the costs of buying a home.
 - **Credit:** Whether you've met other financial obligations helps your lender predict whether you will repay your mortgage.
 - **Property:** The home you want to buy has to be worth enough to act as collateral for the mortgage.

- 2. "What does it mean to get pre-approved?"**

Getting pre-approved means you receive a loan commitment from your mortgage company *before* you have found a home, based on a review of your credit and finances. Having your credit pre-approved shows sellers that you're a qualified buyer and helps you establish a clear price range. The process of getting pre-approved is the same as a typical mortgage application, except that your application doesn't typically include property information.

- 3. "What if I've had credit problems?"**

Your credit history is only one factor in qualifying for a loan, and having made some late payments doesn't have to keep you from buying a home. Someone who has consistently made payments on time in the past may have more financing options than someone who has not, but that doesn't mean a mortgage is completely off-limits if you've had credit problems. *(Contact your lender today for more information.)*

- 4. "Will I have to pay for Private Mortgage Insurance?"**

Private Mortgage Insurance (PMI) provides your lender with a way to recoup its investment if you are unable to repay your loan. PMI is usually required when the mortgage amount is higher than 80% of the home's value. That means that if you buy a home with a down payment of less than 20%, you will probably have to pay for PMI. *(Contact your lender today for more information.)*