

How to Decipher Your Credit Report?

Your credit report may be full of dings, even compounded with a history of foreclosure and bankruptcy, but you may still get a loan for home purchase, refinance, or even cash out of your current home. It may not matter whether you have charge-offs, collections, or tax liens on your credit report, as long as you can meet the specific guidelines for loan approval.

The lending industry uses categories to assess the credit risk of any particular borrower. If the property checks out and you have sufficient income, impeccable credit and the required down payment, you are considered an 'A' borrower. An 'A' borrower can walk into almost any lender and get a mortgage loan. A borrower can fall short in one of these areas and still be considered an 'A' borrower, as long as the other areas can compensate for the weakness. For example, a borrower that exceeds the required monthly debt-to-income ratios could offer a large down payment. Many lenders may also excuse modest credit 'blemishes' if a reasonable explanation is provided (i.e., job transition, medical problems). Being 30-60 days late on one credit card payment is a typical blemish that might be accepted by a lender.

But what about those who have more serious marks against their credit? Depending on how tarnished your credit history has been, lenders will typically place borrowers into the following credit categories, which are qualified by time frames:

A-Minus Credit:

Acceptable blemishes within the last two years: Charge-offs or collection accounts of minor amounts (e.g., less than \$500 total) are usually acceptable. Medical bills, including hospitalization and clinic visits, are usually disregarded by the lender. As for payment habits, the borrower generally can have no more than two 30-days late payments, or one 60-days late payment on revolving or installment credit.

B Credit:

Acceptable blemishes within the last 18 months: Generally, up to four 30-days late payments or up to two 60-days late payments are allowed on revolving and installment debt. If the credit ding is an isolated incident, a 90-days late payment might be allowed within the last 12 months. Charge-offs or collection accounts, which are isolated, insignificant, and less than \$1,000 total, are usually acceptable. However, outstanding collection accounts less than four years old usually must be paid in full. Bankruptcy or foreclosure that has been discharged or settled previous to the 18-month time frame is usually allowed.

C Credit:

Acceptable blemishes within the last 12 months: Generally, no more than six 30-days late payments, three 60-days late payments, or two 90-days late payments are allowed on revolving or installment credit. Open collections accounts and charge-offs should generally not exceed \$4,000 and usually must be paid in full. Bankruptcy or foreclosure that has been discharged or settled prior to the last 12 months is sometimes acceptable.

D Credit:

A sporadic disregard for timely payment or credit standing categorizes the borrower in this class. Open collections accounts, charge-offs, and judgements must be paid through loan proceeds. The borrower who has filed bankruptcy and has been discharged prior to the last six months may be acceptable, as much as the ex-homeowner who had his previous home foreclosed and settled prior to the last six months. However, mortgage payments usually cannot be longer than 90 days past due.

The above are *general industry guidelines* often used by lenders to judge a borrower's loan application. Remember, there are no hard-and-fast rules of separating the borrower on the border line between one credit category and another. Also, there are compromising variations between one lender to the next depending on the degree of subjectivity involved in underwriting and how much each lender wants to commit their funds.

Typical lenders in the market of credit-damaged borrowers usually lend only up to 80% of the appraised value of the home, so the borrower often has to have at least 20% equity or has to come up with a 20% down payment for a purchase. Many lenders, however, will lend a greater percentage.

What about income? A-Minus and B-Credit borrowers are often allowed to allocate 50% of their income to pay for combined monthly debt (compared to the standard 36% guideline used for A credit borrowers), while the bottom rung of the credit ladder can sometimes be stretched to 60%. As for proof of income, some lenders do have "Stated Income" programs, which do not require tax returns, W-2s, or pay stubs, but may require up to 6 months bank statements to verify income activity.

Depending on the extent of the blemishes, borrowers with less-than-perfect credit histories might have to pay slightly higher interest rates for their home loan. But remember, if getting into a home or refinancing out of a bind is your goal, there are always plenty of options for the home buyer or borrower to get the appropriate financing.

Contact your local Mortgage or Real Estate professional today to learn more about your credit report and how you can improve it.

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9 Things You Should Do Now If You Plan On Buying in 2007!

The decision of whether to buy a house in 2007 may seem daunting. Will prices increase? Will interest rates continue to rise? How will the economy fare this year?

The process may seem overwhelming at first, especially if you're buying for the first time. But many industry experts say the general outlook appears promising.

"Although the rate of price increase is expected to slow next year, it will remain above the historic norm of one-to-two percentage points higher than the general rate of inflation," said David Lereah, NAR's chief economist.

"With tame inflation, mortgage interest rates should stay at moderate levels longer than many people expected. This is extending the period of favorable housing market conditions and sustaining reasonably strong sales activity," Lereah said.

If a new home is in your 2007 plans, there are things you can do and information you should be armed with to put yourself in the best position possible when the time comes to buy, including the following:

1. Check your credit report as soon as possible. You don't want to be shocked if there are inaccuracies in your credit report that you will need to have fixed.
2. Get pre-approved for a loan. This way you'll know if you can get

approved and how much you can spend on a house.

3. Be realistic and look at your big financial picture. Just because a bank approves you for a certain amount, it doesn't automatically mean you should find a house for that amount.

4. Determine how much cash you'll have available for a down payment and closing costs (or points, which are extra fees paid to secure a lower interest rate), origination fees, taxes, title insurance, and financing costs).

5. Figure out how much your new bills—utilities, water, insurance, maintenance, etc.—and repairs will cost you each month.

6. Avoid making any major purchases, especially a new vehicle. If you do, you may have a harder time getting the best loan.

7. Keep an eye on interest rates. If they start to creep upward, you may want to make your move.

8. Make a budget now as if you have a mortgage payment and the monthly expenses that come with owning a home.

9. Begin thinking about homeowners' insurance now. If you're renting, make sure you have renter's insurance—it's helpful to have insurance history when you obtain insurance for your new house.

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