

Is It Time to Become a Homeowner?

If you're thinking about buying a home, you should also be thinking about your credit. The first step in the home buying process is *Understanding your credit.*

When you apply for a mortgage, lenders will review your credit report. Your credit report is a history of how you've managed your finances; it's a record of the money you've borrowed and your history of paying it back.

Your credit report is a record of all your credit transactions whenever and wherever you've used credit to purchase goods and services. Your credit will have a big influence on whether or not you can get a mortgage, the terms of that loan, and the interest rate. If you have good credit, you may have a much wider range of mortgage offers with potentially lower rates.

So how do you better understand credit?

- Be aware of how important your credit history is to the process. Do your best to establish good credit and protect your credit.
- Review your credit report and credit scores.
- Make sure you correct any mistakes on your credit report right away.

Establishing Your Credit

Don't have credit? Would you like to improve your credit? Building good credit doesn't have to be difficult, but it does require time and patience. Follow these tips and you're on your way:

Pay your bills on time!

Credit scores emphasize your most recent payment record. Paying on time raises your credit score. If you've been late, start paying on time!

Pay at least the minimum amount required!

You can always pay more—and it's a good idea if you can afford it. But you should *never* pay less than the minimum amount required.

Keep your credit card balances low!

Don't "max out" your credit cards—that can lower your credit score.

Don't apply for too many loans or new accounts!

Applying for a lot of credit in a short period of time may concern lenders that you won't manage your debt well. Only apply for credit when you need it.

Try to keep your debt-to-income ratio at 20%!

Generally, you should not have credit card or other installment debt that's more than 20% of your net monthly income.

Establish credit today if you don't have any!

Open a free or low-cost checking or savings account and make regular deposits. Only write checks when you have money to pay for things. And apply for one or two credit cards, use them carefully, and pay them off each month.

Credit Scores

A credit score is a single number that helps lenders and others decide how likely you are to repay your debts. One common credit score is a FICO score (Fair Isaac & Co.). FICO scores range from 300 to 850 points. When you apply for a mortgage, your credit score is evaluated and a score determined. Your credit score may also be a factor used to determine your mortgage interest rate.

Your credit score is based on several types of information contained in your credit report:

- Your payment history. Late payments will decrease your credit score.
- The amount of debt you owe. If your credit cards are at their limits,

this can lower your credit score—even if the amount you owe isn't large. Similarly, consolidating your debts onto one card can also lower your score.

- How long you've used credit. Your credit history is important. If you show a pattern of managing your credit wisely, keeping credit card balances low, and paying your bills on time, your credit score will be positively affected.
- How often you apply for new credit and take on new debt. If you've applied for several credit cards at the same time, your credit score can go down.

- The types of credit you currently use. This includes credit cards, retail accounts, installment loans, finance company accounts, and mortgages.

Your credit score is only one factor in the credit decision. Mortgage lenders also look at your credit report, employment history, income, how much of your income goes to pay debt, and the value of the home you want to buy.

Credit Reports

Your credit report should accurately represent your credit history. From the moment you first apply for a loan or a credit card, you likely have a credit history. Credit-related transactions appear on your credit report, including your current debts, paid debts, and payment histories. Your credit report is compiled by three private companies: Equifax, Experian and

TransUnion. These companies sell your credit report to banks and other creditors so that they can review your past credit history.

Restoring Your Credit

If you would like to improve your credit score, don't worry. No credit score lasts forever—it changes over time, so you can work to improve it over time.

Every time you apply for a loan or credit card, use credit, or make or miss a payment, you create another entry on your credit report. You also raise or lower your credit score.

Here are some suggestions on how you can improve your credit score over time:

- Don't spend money you don't have.
- Develop a budget and stick to it!
- You can begin to improve your credit rating right away by always making at least the minimum payment, on time.
- Pay off your accounts.
- If you have several accounts with small balances, try to pay them off.
- Understand fully the serious implications and long-term ramifications of declaring bankruptcy.
- Filing for bankruptcy can keep you from getting a loan for a long time, raise your interest rates, and stay on your credit record for 7-10 years.
- Get help from a credit counselor, if needed. Free and low-cost help is available. Check the yellow pages or call your local lender today.

Fix Errors On Your Credit Report

Sometimes, credit-reporting agencies make mistakes that can damage your credit record. If you see something wrong on your credit report, take the necessary steps to fix it immediately.

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The 7 Most Common Homeownership Myths!

Lenders evaluate mortgage applications a lot differently today than they did even 10 years ago. And even more has changed in the last 20 years. What used to close the door to homeownership may not be a factor today.

What follows are the seven most common homeownership myths:

Myth #1: *You need great credit to become a homeowner.*

Fact: You may still be able to buy a home with less-than-perfect credit. And remember, you can work to improve your credit over time.

Myth #2: *You need to put at least 20% down to buy a home.*

Fact: There are many types of mortgage products and programs out there that allow low and no-down payments. But remember to factor in other costs such as closing costs, property taxes, moving expenses and repairs.

Myth #3: *You can't buy a home in the U.S. if you're not a citizen.*

Fact: As long you are a legal resident, you can purchase a home in the United States.

Myth #4: *If you don't have a bank account or credit cards, you can't qualify for a mortgage.*

Fact: Having a bank account is always a good idea and helps you

establish credit. However, lenders can approve you for a mortgage even if you don't have a bank account or credit cards. But you will likely need to keep records showing a history of payments you've made for items such as rent, utilities, and car payments.

Myth #5: *Lenders share your personal financial information with other companies.*

Fact: By law, banks and other financial institutions are restricted in their uses and disclosures of information about you. In some situations, you may choose to restrict the disclosure of your information if you don't want it to be shared.

Myth #6: *If you're ever late on your monthly mortgage payments, you'll lose your house.*

Fact: If you have a financial hardship, like the death of your spouse or a medical emergency and do fall behind, it's very possible to keep your home and get back on track if you contact your lender early.

Myth #7: *You can't get a mortgage if you've changed jobs several times in the last few years.*

Fact: Not true. You can change jobs several times and still get a loan to buy a home. Lenders understand that people change jobs. The most important thing is to show that you've had a stable income.

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