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Credit Information

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For many homebuyers, credit is a big consideration in the buying process. In applying for a mortgage, your credit may be the single factor that opens or closes the door to purchasing the home you want at a low interest rate. You may believe you have a strong credit rating but have never actually seen your credit report. Or perhaps you're concerned that past credit problems will come back to haunt you as you apply for a mortgage.

Whichever boat you're in, the first step is the same: Obtain a copy of your credit report for a small fee and review it for accuracy. Credit reports are maintained by three credit reporting agencies: **Experian**, **TransUnion** and **Equifax**. It's a good idea to obtain your credit report from all three agencies, since each may contain different information and you don't know which agency will be supplying your report to your lender.

If there is incorrect or missing information that would improve your credit score, report it to the credit bureau. Under the Fair Credit Reporting Act, consumers have the right to review and contest information in their credit reports. Even if your credit report reads exactly like you expected and your credit is in fine shape, going into the mortgage application procedure with peace of mind is worth the nominal fee.

What is credit?

Credit is a record of a person's debts and payment history. Credit bureaus compile individual reports of consumer debt through an array of sources, including credit card companies, banks, the IRS, department stores and gasoline companies, and any other entities granting loans. A credit report is a résumé of your financial performance, with information on your payment standing for all the accounts you've held for the past seven to 10 years (seven years for accounts not paid as agreed and 10 years for accounts paid as agreed).

What is a credit score?

Credit scores, also called "beacon scores," are composites that indicate how likely you are to pay on a loan or credit card as agreed based upon your payment history, amount of debts, length of credit history and types of credit in use. The credit grantor reviewing your loan application compiles your score based on information from your credit report and other data, including your income level.

Fair, Isaac and Company (FICO) developed the mathematical formula for establishing scores. Scores range from 300 (poor) to 850 (excellent), and the rule of thumb is the higher the score, the lower the risk to lenders.

In the past, consumers have not been allowed to view their credit score or be informed of the factors that determined their scores. However, C.A.R.-sponsored SB 1607, signed by California Gov. Gray Davis on Oct. 2, 2000, granted California homebuyers access to their credit scores and pertinent information about what factors determined their scores. The legislation, which becomes effective July 1, 2001, also allows consumers to receive their credit scores when they request copies of their credit files for a nominal fee.

What role does credit play?

Lenders review credit reports to determine debts owed and if they are repaid according to the terms of the initial contract. If you have any outstanding debt, lenders will analyze your debt-to-income ratio and how that debt will factor into your ability to make your mortgage payments.

What do I do when I get my report?

Read through it carefully, paying extra attention to the section on your account payment history.

How do I establish credit?

If you have never taken out a credit card or borrowed money from a financial institution, or if your accounts are young, you can

establish credit history by having your rent payments to landlords and monthly payments to utility companies added to your credit report.

How do I re-establish good credit?

If your credit report contains negative information, such as frequent late payments, repossessions, collection activity or bankruptcy, you may want to wait to apply until after you've improved your credit record. Rebuild your credit by showing strong payment history in the years following any problems. Most lenders prefer for three years to have passed since a foreclosure on a mortgage and at least two years since bankruptcy. Lenders are willing to forgive past black marks on a credit report if you establish a pattern of responsible debt repayment.


How do I correct a mistake?

Follow the directions of the credit bureau issuing your report. The bureau will contact the source of the information in question and attempt to resolve the dispute. Also, if late payment information is accurate but you have a good explanation (e.g., you were laid off from work or became very ill), you are allowed to add that information to your report.

See Also:

- [About the Equal Credit Opportunity Act](#)
- [About the Fair Credit Reporting Act](#)
- [CreditSmart by Freddie Mac](#)

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