

Mortgage Matters

by Tammy Engel
661/822-REAL

Manage Your Credit Score for a Better Loan 08.26.10

Are you ready to hear it again? Your credit score has never been more important in getting the best pricing on today's home loan programs.

At least once a week the phone rings with someone telling me their credit score is 900. That's great, but it's not real for mortgage purposes. There is only one reliable place for consumers to get credit scores that closely model what will be used for home financing qualification and pricing: www.MyFICO.com. If you'll be in the market for a home loan anytime soon, log on today and buy all three credit scores to see where you stand. Higher is better, with low scores being anything less than 620, and high scores being better than 740.

Two recent clients paid the price for not having higher scores. The first has a long credit history of perfect payments, but doesn't use her credit cards very often. Smart consumer, right? Credit card debt is bad, right? Maybe not. Because none of her credit trade lines had any recent activity, they had fallen out of the credit score mix. What had once been a 720+ borrower was now a 670 borrower. Even with a 20% down payment, Fannie Mae has a price hit of 2.5% points for her credit score. On her loan amount of \$280,000, this borrower paid an extra \$7000 in closing costs due to her credit score. Ouch!

The next client has recently been a college student and doesn't have much credit except a student loan, which has always been paid on time. Every other credit card or loan he's ever taken out was closed as soon as he repaid the balance, making for a very "thin" credit file. Being a good guy, when he noticed a \$63 collection on his report, he paid it. Bad move. The recent activity on that collection account brought his score down to a level that means he, too, will be paying extra fees for his Fannie Mae loan. The only bright spot is that he hasn't yet found the home he wants to buy, and if he waits six months, chances are that his credit score will pop high enough to avoid the extra cost.

So what's the prudent consumer to do? Don't close your old credit cards, but instead take them for a drive every six months. We're not talking about a spending bender, but buying groceries or a tank of gas and paying the balance the following month will keep the card "active" and will help your credit score. And if you notice any derogatory data on your www.MyFICO.com credit report, don't take any action about it until you get professional mortgage advice. Sometimes it's best to leave those old collection accounts alone and just pay for them through the close of your escrow. It's true: Credit score models don't mimic common sense.

For all the things we don't have control of in this economy, you *can* be better steward of your credit standing and credit scores. Take the time to learn about it now, before you pay for your lack of knowledge at the loan closing table.

Tammy Engel is your local Mortgage Advisor, and is the only lender in Kern County authorized to display the Lending Integrity Seal of Approval. Reach her at 661/822-REAL with your home loan questions.