



*Atlantic Bay Mortgage Group*

# CONSUMER CREDIT STARTER GUIDE

*Atlantic Bay Mortgage  
Group's Consumer Guide  
To Credit Scores  
& Home Financing*



*Atlantic Bay Mortgage Is A  
Mortgage Lender Where The Genuine Care And  
Consultation Of Our Clients Is Our Highest  
Mission. We Pledge To Provide The Finest Personal  
Service To Our Clients, Who Will Enjoy The Entire  
Mortgage Process And Become A Client For Life.*



NMLS #72043 ([nmlsconsumeraccess.org](http://nmlsconsumeraccess.org)) 

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## Introduction

The subject of credit scoring has become an increasingly hot topic, and for good reason. For many years, the general public only associated the concept of credit scoring with the need to purchase high-ticket items such as a new car or a home. Today, credit scoring goes much further. Your credit score can affect your ability to get a good rate on commodities such as car insurance, cell phones, or even determine whether or not you get the job that you want. Indeed, the financial snapshot provided by the credit score has also become a gauge for many employers, especially those who seek to place employees in a position of financial responsibility.

## The History of Credit Scoring

The credit score system used today has evolved since the 1960s. It was originally designed to provide lenders with financial profiles on consumers who wished to borrow money. The lenders' biggest concern was whether or not an individual had the ability to repay a loan, and establish what percentage of risk might be involved.

Congress passed the Fair Credit Reporting Act in 1971 to establish guidelines for fair practices in regard to the use of credit scoring. This law was designed to promote accuracy in reporting and protect the privacy of consumers. In light of the increased use of credit scoring and a growing fear of identity theft, recent legislation has been passed to further protect Americans and improve consumer awareness.

The Fair and Accurate Credit Transactions Act of 2003 (sometimes referred to as The FACT ACT or FACTA) was signed by President George W. Bush on December 4, 2003. This amended the Fair Credit Reporting Act, enabling each American to obtain one free credit report every 12 months from each of the three main credit reporting agencies (CRAs); Equifax®, Experian® and TransUnion®. Those bureaus have created a central web site, [www.annualcreditreport.com](http://www.annualcreditreport.com), to accommodate those wanting to obtain copies of their credit report.

**DO CALL YOUR LOAN CONSULTANT** – If you receive notification from a collection agency or creditor that could potentially have an adverse effect on your credit score, call us so we can try to direct you to the right resources and prevent any derogatory reporting to credit bureaus.

## Why Your Credit Score is So Important

The credit scoring model seeks to quantify the likelihood of a consumer to pay off debt without being more than 90 days late at any time in the future. Credit scores can range between a low score of 300 and a high score of 850. The higher the score, the better it is because a high credit score translates into a low interest rate. This can save literally thousands of dollars in financing fees over the life of the loan.

Only one out of 1,300 people in the US have a credit score above 800. These are people with a stellar credit rating that get the best interest rates. On the other hand, one out of every eight prospective home buyers is faced with the possibility that they may not qualify for the home loan they want because they have a score falling between 500 and 600.



## The Five Factors of Credit Scoring

Credit scores are comprised of five factors. Points are awarded for each component, and a high score is most favourable. The factors are listed below in order of importance.

### 1. PAYMENT HISTORY – 35% IMPACT

Paying debt on time and in full has the greatest positive impact on your credit score. Late payments, judgments and charge-offs all have a negative impact. Missing a high payment will have a more severe impact than missing a low payment, and delinquencies that have occurred in the last two years carry more weight than older items.

### 2. OUTSTANDING CREDIT BALANCES – 30% IMPACT

This factor marks the ratio between the outstanding balance and available credit. Ideally, the consumer should make an effort to keep balances as close to zero as possible, and definitely below 30% of the available credit limit when trying to purchase a home.

### 3. CREDIT HISTORY – 15% IMPACT

This portion of the credit score indicates the length of time since a particular credit line was established. A seasoned borrower will always be stronger in this area.

### 4. TYPE OF CREDIT – 10% IMPACT

A mix of auto loans, credit cards and mortgages is more positive than a concentration of debt from credit cards only.

### 5. INQUIRIES – 10% IMPACT

This percentage of the credit score quantifies the number of inquiries made on a consumer's credit within a six-month period. Each hard inquiry can cost from two to 25 points on a credit score, but the maximum number of inquiries that will reduce the score is ten. In other words, 11 or more inquiries within a six month period will have no further impact on the borrower's credit score. Note that if you run a credit report on yourself, it will have no effect on your score.



## How Does a Low Credit Score Affect My Interest Rate?

Lenders estimate your ability to pay back money based on your credit score. The risk factor they take on is built-in to your interest rate as a financing fee. Therefore, a low credit score results in a higher interest rate, higher monthly fees, and a higher amount of interest being paid over the total life of the loan. Only one out of 1,300 people in the United States have a credit score above 800. These are people with a stellar credit rating that get the best interest rates. On the other hand, one out of every eight prospective home buyers is faced with the possibility that they may not qualify for the home loan they want because they have a score falling between 500 and 600.

A borrower with a credit score of 620 would be questionable to an underwriter. While the lender may agree to provide financing, the increased interest rate is factored into the monthly payment.

### *Did You Know?*

*A borrower who increases his or her credit score from 620 to 720+ can potentially save \$601 per month on mortgage payments, \$7,214 per year, and approximately \$216,432 over the life of the 30-year loan.\**

## How Does the Underwriter View My Score?

If you are considering a home purchase, it is in your best interest to make every effort to increase your credit score, especially if you know you have issues you should be dealing with. It is often the case that people are not aware of bad marks on their credit record until they apply for financing for a major purchase, such as a home.

As part of the loan process, we run a credit report for you. But you can take advantage of the opportunity to get a free credit report from each of the three main CRAs: Equifax, Experian® and TransUnion®. As a sidebar, you can choose to get the free report from all three bureaus at the same time, so you are aware of what information each bureau has collected. Another option is to pull your credit report from one agency, and reserve the right to get your free reports from the other two CRAs as you work on improving your credit standing.

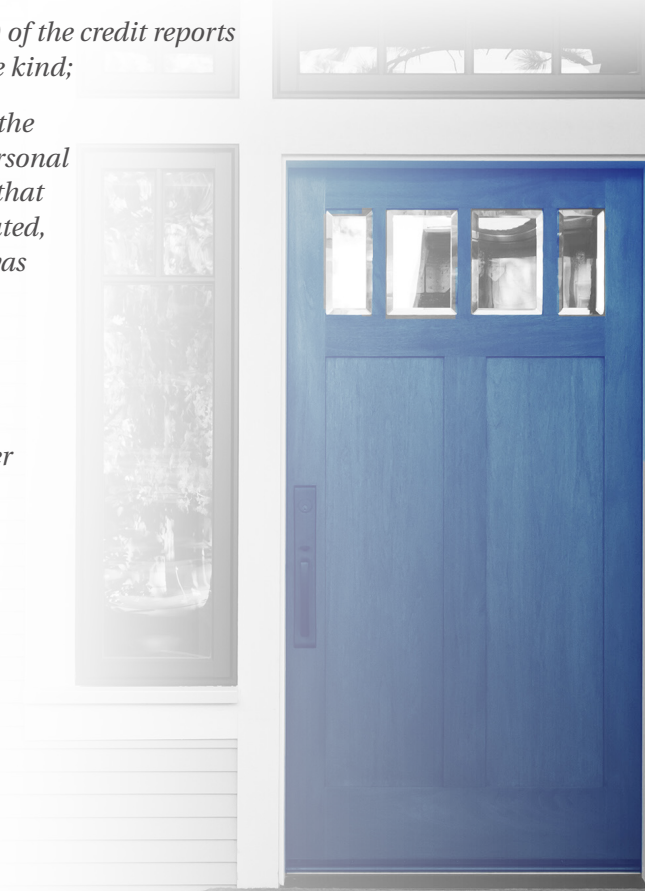
We believe it is best to have the full overview up front. Different CRAs have different methods of calculating these scores, and may also have different information contained within their findings. Consider the adage, “Why jump over nickels to pick up pennies?” If additional reports are needed within a 12-month period from any of the three CRAs,

the cost is extremely minimal compared to the potential savings that can be realized by an improved credit score, and if you run a credit report on yourself it will not affect your own score as an inquiry. The underwriter who is making the decision as to whether or not you should get the loan you are asking for will generally look at the scores generated from all three CRAs. Typically, the score will not be the same from all three reports, and the underwriter will consider the middle score as a barometer.

## Disputing Errors On the Credit Report

If you are in the process of reviewing your credit reports, the first thing to do is make sure that the information contained within the reports is correct. In June 2004, The U.S. Public Interest Research Group published the results of a survey it conducted involving 200 adults in 30 states to test the validity of credit reporting. Their findings were as follows:

- *Twenty-five percent (25%) of the credit reports contained errors serious enough to result in the denial of credit;*
- *Seventy-nine percent (79%) of the credit reports contained mistakes of some kind;*
- *Fifty-four percent (54%) of the credit reports contained personal demographic information that was misspelled, long-outdated, belonged to a stranger, or was otherwise incorrect;*
- *Thirty percent (30%) of the credit reports contained credit accounts that had been closed by the consumer but incorrectly remained listed as open.*



If you find that you have errors on your credit report, follow this procedure to correct those errors.

1. *Make a copy of the report and circle the item(s) you are questioning. Keep your original copy for your own records.*
2. *Prepare a letter to the CRA that provided you with the report in question, and request to have the erroneous item(s) removed. If you have proof of payment for an item in question, include a copy of that documentation.*
3. *Prepare a letter to the creditor reporting the problem, especially if you feel you are a victim of fraud or identity theft. Inform the creditor that you are disputing an error reported to the CRA, state why the claim is inaccurate, and include any relevant documentation to prove your point.*
4. *Send your correspondence via certified mail.*

You should receive a response from the CRA within 30 to 45 days. If the error has been corrected, they will send you a fresh copy of your credit report at no charge to show you that the item has been removed. They will also send a corrected report to any entity that received a report that contained errors within the last six months.

If you cannot have a disputed item removed, you have the right to include your side of the story on the credit report. Your statement should be a concise explanation (100 words or less) as to why you are challenging the item in question. From that point on, this notation will be included in your credit report as long as the item in question remains on your report.

## What if I Have No Credit?

On occasion, a borrower will not have enough credit references to obtain the loan they wish to secure. If this is the case for you, start by opening small lines of credit that report to one of the three major CRAs, and make purchases that can be paid off easily. If you do not already have a checking or savings account, open one. Your bank or credit union may be able to provide you with a credit card account once you have established a history with them as a customer.

It is also wise to start saving money for the down payment on your home. The lender will look at your application more favourably when you are able to come to the table with a 20% down payment. Bear in mind, there are certain loan programs available that permit a percentage of gift money for down payment, which can come from a relative, or even the person selling the home.

## Dealing with Credit Challenges

Unfortunately, a person with a bad credit score is often in this position because he or she lacks the discipline to pay bills on time. Of course, there are exceptions where unforeseen circumstances come into play, such as health complications, or loss of employment. There are a few things that may be able to bring your score up so that you can secure a better interest rate on your mortgage loan.

### EXAMPLE 1: DISTRIBUTE DEBT FROM REVOLVING CREDIT.

Our borrower, Mr. Jones, has a credit score of 664. He has five credit cards, but his Visa account is almost maxed out. His other four credit cards have relatively low balances. Mr. Jones moves part of the debt from the Visa account to the other major credit card accounts, thus distributing the debt more evenly over the five cards. This changes the ratio of debt to available credit (which has a 30% impact on the overall credit score), and Mr. Jones successfully raises his credit score by 20 points with very little effort.

### EXAMPLE 2: TRANSFER OUTSTANDING BALANCES TO NEW ACCOUNTS.

Our borrower, Mr. Smith, has only two credit cards, but both are pushing the limit of available credit. Mr. Smith opens two new credit card accounts, each with a credit limit of \$5,000. He transfers part of his existing balances to the new accounts. While he has acquired two new cards that have no established history, the greater impact is the change in the ratio of debt to available credit.

Ultimately, experts say that it is best to have three to five credit cards, and no more than that. You should keep your balances as low as possible. If you have a credit account with a zero balance, do not close the account.

Instead, make a small purchase so the card shows up as an active account on your credit report, and you will be awarded points for your long-term credit history. These are just a few tips to consider as you seek to obtain mortgage financing. But you should always know that as your loan originator, my job is just beginning when you close your loan with me. Our long-term goal is to help you build a strong financial future.





# DO'S & DON'T'S

*During The Loan Process*

## **DO join a credit watch program**

Your bank, credit union or credit card company may be able to provide you with a free credit watch program that can alert you to any changes in your credit report. This can be a safeguard to help you intervene before the underwriter sees a problem.

## **DO stay current on existing accounts**

Late payments on your existing mortgage, car payment, or anything else that can be reported to a CRA can cost you dearly. One 30-day late payment can cost anywhere from 30 to 75 points on your credit score.

## **DO continue to use your credit the way you normally would**

Red flags are easily raised within the scoring system. If it appears you are diverting from your normal spending patterns, it could cause your score to go down. For example, if you've had a monthly service for Internet access billed to the same credit card for the past three years, there's really no reason to drop it now. Again, make your changes after the loan funds.

## **DON'T apply for new credit of any kind**

If you receive invitations to apply for new lines of credit, don't respond. If you do, that company will pull your credit report and this will have an adverse effect on your credit score. Likewise, don't establish new lines of Credit for furniture, appliances, computers, etc.

## **DON'T pay off collections or charge-offs**

Once your loan application has been submitted, don't pay off collections unless the lender specifically asks you to in order to secure the loan. generally, paying off old collections causes a drop in the credit score. The lender is only looking at the last two years of activity.

## **DON'T max out or over charge existing credit cards**

Running up your credit cards is the fastest way to bring your score down, and it could drop up to 100 points overnight. Once you are engaged in the loan process, try to keep your credit cards below 30% of the available credit limit.



*Atlantic Bay Is Dedicated  
To Helping Clients Navigate*

# THE PATH TO HOME OWNERSHIP



**99.4% Customer  
Satisfaction**



**99.7% Closed By  
Contract Date**



**Over 70,000  
Clients Helped**



