

Chapter 6

Credit Report Secrets Revealed

Your credit score now affects so many different areas of life, it is crucial to take your score seriously and take steps to improve it. Even if you have great credit, it is still important to take steps to optimize your score. The bottom-line – the higher your score, the better your terms on all kinds of financial products from credit cards to auto loans to insurance and even employment. Your score grades your financial character everywhere.

For the purposes of a home purchase, your score determines whether or not you can obtain traditional financing. The score affects the cost for a home mortgage as well. The challenge is – the score changes all the time and what makes it adjust can be difficult to pin point. This becomes crucial when you apply for a home loan. You may qualify for a certain home loan and when you get closer to closing on your home, your score adjusts down and “boom” you are surprised by a higher cost or even a potential “decline.” Not fun.

In the home loan world, credit scores are king. There are minimum required scores to obtain financing. At the time of this writing, the minimum score to obtain an F.H.A. home loan is 580. However, most lenders will not loan F.H.A. unless the score is 620. There are rumors of banks requiring a minimum of 640 scores to fund F.H.A. loans. Minimum scores for conventional loans are set even higher.

SECRET REVEALED: In the home loan world, credit scores are king.

Which Score Do the Mortgage Lenders Use?

Home mortgage lenders will “pull” scores from the big “three” credit bureaus. The scores almost always differ from each other. Mortgage lenders will use the middle score of the borrower. If there is a co-borrower, both will need to qualify. If both are going on the loan, you will take the lowest mid score between the two.

It is best to get your scores from a reputable mortgage lender as scores differ between industries. The scores generated for the auto industry are different than those generated for home loans.

If you know you have credit scores that are well above 740 then you will no doubt be in position to get the best possible financing. However, the majority of Americans don't. So the following information will be helpful. Let's start with a review of the credit reporting industry.

SECRET REVEALED: Mortgage lenders use the middle score of the three major credit bureaus.

This is a sample section from the book “First Time Home Buying Secrets” by Kenn Renner. To order the entire book, please visit www.FirstTimeHomeBuyingSecrets.Com

Credit

What is a credit report? Simply, it is a detailed history of your willingness to pay. A credit report is a payment history of your revolving (credit cards) and installment (auto, student loan, etc.) accounts provided by a **credit reporting agency**. A local credit reporting agency will pull information from one or all of the three national credit reporting bureaus – **Experian, Trans Union, Equifax (& now a 4th – Innovis)**. Most revolving charge card and installment loan finance companies report a borrower's account payment history to one or all of these national credit-reporting bureaus. Collection accounts, judgments, tax liens, foreclosures, and bankruptcies will also show on the credit report. The credit report will show a monthly breakdown of when and how long an account is or was past due (thirty days, sixty days, ninety days, etc.) It will also show the balances and monthly payments for the accounts. The credit report is a good indication of your “willingness to pay” and is often the deciding factor whether or not a creditor will extend credit.

How to Establish Credit

Those who have never established any formal credit may find themselves in a dilemma. Credit grantors often won't issue new credit unless the applicant already has credit. Those without credit can find it difficult to show the history of other credit that grantors want to see. To establish a few accounts, a borrower can apply for a **secured credit card**. A secured credit card is where you open a small savings account (\$300-\$500) with a credit card grantor. The savings account is usually the maximum credit limit and is the security for the credit card should the account not be paid as agreed. Most banks and credit unions also offer installment loans secured by a savings account. Pay the account(s) on time for several months to establish a good credit history. Once the credit history is established, other credit card companies (that don't require savings deposits) will likely grant you credit. Once a history is established, deposits and the savings account will be returned to you. Make sure the credit grantor reports to the national reporting bureaus and make sure the credit grantor is a reputable company. A credit seeker may also find a co-signer for a credit card. A parent or relative may co-sign for a card and the co-signer will be held jointly responsible for the payments. After a few months of paying on time, you may apply for a few more cards in your own name. **Be careful not to go into debt** with this new credit and keep the balances down or paid off so as not to be charged high credit card interest rates.

SECRET REVEALED: Establish credit with a secured credit card or credit line.

Quick Points for Maintaining Good Credit

Paying your credit accounts on time is the primary way of keeping a good credit rating. Keeping your balances low in ratio to the credit limit or paid off each month is important. Optimize the amount and type of credit: two to three credit cards, one installment and one additional account is good. Avoid collection accounts – work with the creditors before it gets to the point of a collection. Keep old credit card accounts open

This is a sample section from the book “First Time Home Buying Secrets” by Kenn Renner. To order the entire book, please visit www.FirstTimeHomeBuyingSecrets.Com

and use them from time to time to keep them active. Do not close old credit card accounts that are in good standing.

SECRET REVEALED: Don't close credit card accounts that have been open for a long time.

Do not open multiple new accounts unless you have to and then only a few. Run your credit report at least once a year and review for mistakes. A good way to monitor it is www.AnnualCreditReport.Com and pull one bureau every four months. You are allowed one pull per bureau per year for free. This will also reveal identity theft or credit fraud. Credit reporting software puts the most emphasis on the previous twelve months credit history. Paying off old collections can hurt your score unless they are deleted from your record.

Your credit report and credit rating is as unique as you are. Every credit report is different and most everyone has had times when their credit was bruised. I have helped hundreds of home buyers who thought their credit was shot and come to find out that it was not as bad as they thought. Others I have worked with had to follow a plan to fix their credit so they could be in a position to buy a home.

SECRET REVEALED: Paying off old collection accounts can hurt your score.

Fair Credit

In 1971, Congress passed the Fair Credit Reporting Act (The Law). Its purpose is to set forth guidelines for "fair" and "accurate" credit reporting. Credit reporting agencies are governed by this act and must adhere to its provisions. Penalties to the credit reporting agency and creditor can be severe for non-compliance. The compliance procedures set up by the fair credit reporting act are the key to one being able to "repair" or "clean up" a report rating.

Credit Reporting Agencies

Credit reporting agencies are in the business of collecting consumer credit information and providing that information, usually for a fee, to grantors of credit (credit card, auto finance, home loan companies, etc.). There are local credit bureaus and national credit bureaus. The three "major" national credit reporting companies are Experian, Equifax, TransUnion and Innovis. Most credit grantors report to one or all the three "majors" (and now a 4th called Innovis). The credit grantors usually submit their customer's account history each month to the "majors." A credit report contains a list of consumer's credit accounts. The date the account was opened, the high credit limit, the amount owing, the minimum monthly payment and history of any late payments or past due balances are included in the credit report. A credit report can be obtained by a

This is a sample section from the book "First Time Home Buying Secrets" by Kenn Renner. To order the entire book, please visit www.FirstTimeHomeBuyingSecrets.Com

potential credit grantor from one or all of the majors (with the consumer's written permission or implied permission, through web applications or over the phone). Or a credit grantor (like a mortgage company) can obtain a credit report from a local credit bureau (agency) who will compile information from the national credit bureaus as well as other sources. The credit grantor will analyze the credit report to make a determination to extend or not extend a consumer a line of credit. A consumer's ability to borrow money can hinge on what is reported on a credit report and the fair credit reporting act was established to ensure "fair and accurate" reporting of information. However, the credit reporting system is not perfect. The sheer volume of information being collected, assimilated, and reported creates common instances of incorrect reporting and/or non-compliance with procedures. This offers the consumer a way to use the law to fix bad credit. Unfortunately, the burden to fix a negative credit report is on the consumer. Credit repair takes time and patience but it is well worth the effort.

Steps for Correcting a Credit Report

There are ways to correct and repair a credit report by consumers who are willing to put forth the effort. Credit scores now affect so many facets of our financial life it is wise to pursue corrections and repairs if needed. The idea is to get your credit scores raised as far and as fast as possible. It will take work but it is important to you and your financial future.

First, a borrower can obtain a credit report from the "major" credit reporting bureaus: Experian, Equifax, Trans Union (and Innovis). The "majors" will supply a complimentary credit report upon request at www.annualcreditreport.com once a year. If you request a score, there is a charge.

Experian
NCAC
P.O. Box 9595
Allen, TX 75013
(800) 583-4080 [9:00am-5:00pm In Your Time Zone]
www.consumer.com/consumer/index.html

Equifax
P.O. Box 740256
Atlanta, GA 30374
(800) 797-7033
[9:00am-5:00pm In Your Time Zone]
<http://www.econsumer.equifax.com/else>

Trans Union
P.O. Box 2000
Chester, PA 19022-2000
(800) 916-8800 [8:30am-4:30pm In Your Time Zone]
www.transunion.com/investigate

This is a sample section from the book "First Time Home Buying Secrets" by Kenn Renner. To order the entire book, please visit www.FirstTimeHomeBuyingSecrets.Com

Innovis
Attention: Consumer Assistance
P.O. Box 1358
Columbus, OH 43216-1358
www.innovis.com

In my experience, a quicker and more efficient way to obtain a credit report is to apply for a home loan with a local mortgage company who will obtain a “merged” credit report. A local credit bureau will merge info from the three major bureaus (& possibly Innovis). The local credit bureau’s report can be easier to read and the bureau is available to explain the report to their client – the mortgage company. The mortgage company can then in turn explain the derogatory items and remedies to you. The local bureau can also be of great help in correcting and re-verifying the credit entries. A mortgage company who has a close working relationship with their credit reporting bureau can be a huge help. The credit bureau can use uncommon knowledge and relationships with both creditors and the “majors” to help clear up a credit report for you through the mortgage company client.

SECRET REVEALED: Mortgage companies working with local credit bureaus can be a great help.

The consumer should review the report with the mortgage company and decide what information is incorrect. Ask the mortgage company to ask the bureau to provide all of the creditor’s addresses and telephone numbers that are associated with each account entry on the credit report. You may also want the mortgage company to have the credit bureau break up the tri-merged credit report so you can see what each “major” is reporting separately. Almost every credit report has errors. Check names, addresses, social security numbers, etc. Go through every account entry and make a note of items that you know are wrong. Next, go through the report and make a note of account entries that could be wrong or are partially correct. Make a note of all derogatory information that is correct and that you would like to have removed.

Disputes

A consumer has the right to challenge (dispute) any of the information contained in a credit report. If a consumer believes the information to be inaccurate or obsolete, the credit bureau must investigate the item being challenged. If a borrower has proof (ex. canceled check) of an account being paid, you need to work the problem out with the creditor first then the credit reporting agency can approach the creditor and verify the creditor’s records. It is important to present any proof of timely payment and resolve the discrepancy with the creditor who is reporting the error first. The credit bureaus will only change information reported, with the validation of the creditor. The credit bureau is obligated to request verification of information from the creditor and the creditor must provide the proof to the credit bureau within thirty days. If the information is not re-

This is a sample section from the book “First Time Home Buying Secrets” by Kenn Renner. To order the entire book, please visit www.FirstTimeHomeBuyingSecrets.Com

verified by the creditor within the thirty days, the derogatory information must be deleted from the credit report. There is now a fifteen-day extension they can ask for, bringing the investigation time to forty-five days. Information that is accurate but not re-verifiable can also be removed. For instance, if a creditor is no longer in business and can't be contacted for verification – the item can be removed. Items that are out-dated must also be removed. Items can be deleted from the credit report if seven years have passed since the incident (ten years for bankruptcies). Often, those with common names can have credit items reported that are not theirs. Credit entries that are not the consumers can be removed. If the credit item was discharged in a bankruptcy and still shows past due, it can be removed from the report or it can be changed to a zero balance showing “included in bankruptcy.” The dispute must be specific (ex. request the account have the balance and past due made zero). Also, the creditor that is reporting the derogatory information can voluntarily delete the item from the credit report. A borrower can try to negotiate directly with the creditor to take a partial or full settlement in return for having the account “deleted” from the credit report. Often, a consumer may not even be aware of adverse items until they have been turned down for credit. Being turned down for credit can be discouraging and embarrassing and the consumer is not usually given the procedures for correcting the problem. The consumer must pursue steps to correct and repair the credit so as to not be denied credit in the future.

SECRET REVEALED: Disputes can help correct or delete derogatory credit entries.

An important note about “Disputes” on credit reports. Recently, F.H.A. has not allowed some home loans to be funded when there were outstanding “disputes” on the credit report. So make sure you work with your mortgage lender and local credit bureau to work through and resolve disputes if you are beginning the process of buying a home.

Write a Letter to the Bureaus (Eliminate Inaccuracies)

The next step in credit repair is to write a letter to the “major” credit bureaus (Experian, Trans Union, Equifax and now Innovis) and to the local bureau explaining the inaccuracies found on the credit report. If a credit card company is reporting late payments and you have proof the payments were made on time, you will also want to send a letter to each of the creditors that have reported inaccurately. Include copies of any documentation that will back your explanations (canceled checks, divorce decree, closing statements, etc.). Send your letters “Certified” return receipt requested.

Often times, after a bankruptcy, credit that was discharged in the bankruptcy still shows on the credit as being delinquent. Provide a copy of the bankruptcy discharge papers showing that the account was included in the bankruptcy. Ask that each derogatory statement be re-verified for accuracy. Remember, at your request, the credit bureau must contact each creditor for verification of derogatory information. If re-verification from the creditor is not received within thirty days, the account must be legally stricken from your report. Even derogatory credit that is reported correctly can be

This is a sample section from the book “First Time Home Buying Secrets” by Kenn Renner. To order the entire book, please visit www.FirstTimeHomeBuyingSecrets.Com

removed if the procedures are not followed as set out by law. This is how many of the so-called “credit repair companies” use the system to remove unwanted credit blemishes. They send letters month after month to credit bureaus hoping that the creditor or bureau will fail to respond to disputes within thirty days or that the creditor decides it is not worth the time and paperwork to continue to update the reported information. The consumer can use that process to try to remove unwanted items, however, it is not fool proof as some creditors will be relentless in following the verification procedures. Even if only a few unwanted credit blemishes are removed, it will be well worth the effort. This method can also be used with those with good credit to present a clear and “correct” credit report to anyone who sees it.

SECRET REVEALED: Simple corrections can raise your score.

Negotiate with Creditors

Negotiating with creditors is sometimes the easiest and quickest way to fix credit. Most creditors or collection agencies don't want to ruin someone's credit – they just want to be paid. A consumer who wants to clear the blemish from the credit may simply just ask. For instance, if a dentist has placed a collection account on a consumer's credit report for an unpaid bill, the consumer can contact the dentist and negotiate a payment plan or offer to pay off the collection account in return for the account being “deleted” from the credit report completely. The collector may even settle for a percentage of the total amount owed. Even if the creditor demands the full amount, ask that the account be “deleted” when it is paid. Collection accounts that have been paid will still show on a credit report as “paid collection accounts” or “paid charge offs” and are still considered derogatory, and this does not help the score. Settling a collection account can drive the score lower, if the agency is not willing to delete. Accounts that are “deleted” are removed completely from the report and it is as if the incident never happened. Do not pay off an account unless the creditor acknowledges in writing that the account will show as deleted or at least “paid.” Paying a collection agency may not help the score, it may actually hurt your score. If you do decide to pay it off, then at least it will keep the agency from sending the account to another agency later on. Paying or settling an account with the original creditor, not to be confused with a collection agency, will always help the score and prevent the account from being sent or sold to a collection agency.

SECRET REVEALED: Getting derogatory accounts deleted is like the event never happened.

A very complete “paper trail” should be established. Some local credit bureaus will allow you to pay the bill through the credit bureau so the item can be removed from the report immediately. When negotiating with a creditor, ask to speak to the credit manager or supervisor. There is no use wasting time talking with someone who does not have the authority to make decisions regarding a credit issue. Keep a log showing the date and time of the calls, and document what was discussed and who was spoken to. It may take several calls and letters to resolve the issue, but it is worth the effort. It doesn't hurt to mention the Fair Credit Reporting Act and even potential legal action in the letter.

This is a sample section from the book “First Time Home Buying Secrets” by Kenn Renner. To order the entire book, please visit www.FirstTimeHomeBuyingSecrets.Com

There are even cases where “correct” derogatory credit can be removed by pleading with the creditor to remove it. A creditor may value a consumer’s account enough to remove the blemishes as a sign of good faith.

The Credit Bureaus Rights

The Fair Credit Reporting Act allows credit bureaus to refuse to investigate items that are considered “frivolous” or “irrelevant.” It is up to the credit bureaus to decide what requests are “frivolous or irrelevant.” A letter that is sent to the bureau claiming “everything is wrong” stands a good chance of being considered “frivolous” and the bureau may refuse to reinvestigate.

Credit report Explanations (Statements)

If all else fails in removing derogatory entries from a report, the Fair Credit Reporting Act gives the right to the consumer to include a statement of up to one hundred words telling the consumer’s side of the story. The statement will be printed out on the credit report every time it is run by a creditor although it won’t help the credit score.

Inquiries

Every time a credit report is run it will create an inquiry. An inquiry will show which creditor ran a credit report and when. A common misunderstanding about inquiries is that they can hurt the score. The scores have been designed to allow multiple inquiries within a thirty-day period for financing inquiries. You can have your credit pulled as many times as necessary, within a thirty-day period, when shopping for rates, and the inquiries for each industry will only count as one inquiry against your score.

However, too many inquiries on a credit report from different trade types can affect the credit rating. You don’t want to apply for a credit card then an auto loan then a credit line and then a home mortgage. This will hurt your score.

SECRET REVEALED: Multiple inquiries in a thirty-day period in the same industry has a very minor effect on the score.

Do Not Close Long Standing Accounts

The credit reporting software looks at how long an account has been open and if it has a small balance, it will give you credit for the long history. If you pay the account off, it will have a little effect. Keeping older credit card accounts active will always help the scores. Don’t pay off an older account to open a new account. This will almost always drop the score.

Balances on Credit Cards

This is a sample section from the book “First Time Home Buying Secrets” by Kenn Renner. To order the entire book, please visit www.FirstTimeHomeBuyingSecrets.Com

The score software counts balances on credit cards as a very high percentage of your score. It is always advisable to keep balances under 19% of the credit limit. Scores work on a percentage basis. If you go over 19%, this will negatively affect your score. If you go over 39%, 59%, 79% and 99%, it will negatively affect your score with each higher percentage. Your best bet is to keep your balances under 19% of the credit limit even if you have to redistribute balances across different cards to do so.

SECRET REVEALED: Keep credit card balances under 19% of the credit limit.

Another thing to watch out for is when credit card companies lower your credit limit. Lately, credit card issuers have been lowering available credit limits at their own discretion. You may have had a good balance to limit ratio with a \$1,900 balance and a \$10,000 limit and the credit card issuer lowers your limit to \$3,500 – now your ratio exceeds 50%.

SECRET REVEALED: Watch out for your credit card companies lowering your credit limit.

Number of Credit Card Accounts

The best score is obtained by only having two to three revolving accounts and one installment account. You can lose points when you go over three, four, etc. Go over seven and you will get hit real hard. The scoring software also looks at how long you have had credit established and if you have a long credit history, your score will not be affected as much by the number of accounts than if you have opened a bunch of new accounts with a short history.

SECRET REVEALED: Optimize your credit with the proper mix of accounts.

Different Scores For Different Industries

Always keep in mind that each industry score is different. An automotive score is different from a credit card score. If you purchase the scores from websites offering scores, they will in most cases not be reliable for a mortgage. It can be used as a barometer for those, working on fixing their credit report to see a before and after effect. Each industry also has their own scale for what they consider an acceptable score for different rates. An exceptional score for a mortgage might be 740, but for the auto industry it might be 840. The scoring scale is completely different for different industries.

No Credit is Not Good Credit

Unfortunately, those who like to pay cash for everything can have a problem getting a score generated. This does not seem fair but it happens all the time, especially to immigrants who moved here from out of the country. They don't have a credit history here in the U.S. and therefore no score. It is wise to establish credit early in the game and keep your payments in good standing and your balance to limit ratios low.

This is a sample section from the book "First Time Home Buying Secrets" by Kenn Renner. To order the entire book, please visit www.FirstTimeHomeBuyingSecrets.Com

Credit Repair Agencies

People have been scammed out of hundreds and even thousands of dollars by unscrupulous organizations that promise better credit and then don't deliver. There are credit repair companies that do a fair to good job and help get scores up but "beware" – the scammers are out there. Beware of organizations that seem to be legit but can actually prolong or further damage credit scores. So-called "credit counseling services" that can actually be collection agencies in disguise. I have worked with clients time and time again that went to "counseling" agencies and the situation turned out to be a nightmare. Some of them tell you to stop making payments so the creditors will negotiate with you – bad advice. Debt consolidation companies can be counted as bad as bankruptcy on credit reports for mortgage purposes.

SECRET REVEALED: Be very careful about using so-called credit counseling services and credit repair companies.

Because of the abuse of credit repair agencies in the past, a law was passed. "The Credit Repair Organizations Act" sets out strict guidelines for credit repair organizations. You can find these guidelines on the Federal Trade Commission's website: www.ftc.gov.

Before signing up with a credit repair agency, I suggest you review the contract. The law spells out what must be followed by credit repair agencies, including a three day right of rescission to cancel a contract and a full written description of what the credit repair company will do for you and when.

The credit repair process is something you can do on your own. It is not necessary to pay for services. Consider free credit repair.

There are several organizations that have been set up to help consumers get their credit in order without payment. Even some national builders have stepped up to help home buyers out and provide free credit repair. Obviously, the builder hopes that you will purchase one of their homes but it is not a requirement of the program that you purchase a home from the builder. DR Horton, one of the largest builders in the U.S., offers this service through its DHI Homebuyers Club.

Secrets Revealed Recap

1. In the home loan world, credit scores are king.
2. Mortgage lenders use the middle score of the three major credit bureaus.
3. Establish credit with a secured credit card or credit line.
4. Don't close credit card accounts that have been open for a long time.
5. Paying off old collection accounts can hurt your score.

This is a sample section from the book "First Time Home Buying Secrets" by Kenn Renner. To order the entire book, please visit www.FirstTimeHomeBuyingSecrets.Com

6. Mortgage companies working with local credit bureaus can be a great help.
7. Disputes can help correct or delete derogatory credit entries.
8. Simple corrections can raise your score.
9. Getting derogatory accounts deleted is like the event never happened.
10. Multiple inquiries in a thirty-day period in the same industry has a very minor effect on the score.
11. Keep credit card balances under 19% of the credit limit.
12. Watch out for your credit card companies lowering your credit limit.
13. Optimize your credit with the proper mix of accounts.
14. Be very careful about using so-called credit counseling services and credit repair companies.