



CREDIT-REPORT ERRORS ELIMINATE COMPETITION FOR REAL ESTATE

Learn how to check FICO scores, fix mistakes

Is your credit perfect? Then stop reading and move on to something else.

However, if you are like most of us, you have a credit blemish or two.

But don't let bad credit stop you from buying a home. Today, there is a home loan lender for virtually every prospective home buyer.

Before shopping for a house or condo, your first step should be to get pre-approved in writing by a mortgage lender. Then you will know what price-range home you can afford and if you will need any cash down payment.

If you have good credit and sufficient steady income, you might not need any cash down payment to buy a home. A savvy mortgage lender can show you how to buy a house or condo for nothing down.

CHECK YOUR CREDIT REPORTS BEFORE BUYING OR REFINANCING YOUR HOME

Having just satisfactorily refinanced my home mortgage with Wells Fargo, I recently became very concerned about my credit reports. Before refinancing, I checked my three credit scores.

The easiest source I found was www.myfico.com. It wasn't cheap. But for \$14.95 each I checked my three credit reports and my FICO (Fair, Isaac and Co.) scores from the three major nationwide credit bureaus.

To my surprise, I discovered there was a 32-point difference between my best FICO credit score and my worst FICO credit score. However, after I read each credit report from Trans Union, Experian and Equifax, I couldn't spot any significant differences.

Fortunately, I didn't find any major mistakes on my credit reports, other than credit

accounts I closed long ago, which were shown as still open on several reports.

As a general rule, mortgage lenders report if your FICO scores are 680 or above you probably qualify for the lowest mortgage interest rates. However, you might pay a bit higher interest rate if your FICO scores are between 620 and 680. Each lender has its own FICO score standards.

However, if your FICO scores are below 620, you will probably have to pay a higher interest rate. But don't let that stop you from buying a home.

The reason is once you buy a house or condo, you can work on improving your FICO credit score, which virtually all mortgage lenders use. After a year or two of on-time mortgage payments, you can probably refinance on better terms and, if your home appreciated in market value, even take out some tax-free cash thanks to the increased equity.

HOW TO OBTAIN THREE FREE ANNUAL CREDIT REPORTS. Thanks to a new federal law, in most states it is now possible to obtain a free annual credit report from each of the nationwide credit bureaus. However, these free credit reports do not include your all-important FICO credit scores, which most mortgage lenders now use to evaluate your mortgage eligibility.

To obtain your free, once-a-year credit reports, without FICO scores, in most states just go to www.annualcreditreport.com. If you don't have Internet access, your public library reference department will be glad to assist you. Some eastern states will gain access to these free credit reports later this year.

HOW TO FIX YOUR CREDIT REPORTS IF YOU DISCOVER ERRORS. Mortgage lenders are eager to loan you money to buy or refinance your home. The better your FICO scores, the better the mortgage terms you will obtain and the lower your monthly payment will be. For this reason, it pays to fix your credit reports containing errors.

After obtaining a written copy of each credit report from the three nationwide credit report bureaus, if you are not satisfied with your FICO score, be sure to contact each credit bureau to dispute any errors.

As a general rule, FICO scores depend on the length of your credit history, on-time payments, number of recent credit inquiries, and percent of credit use compared to available credit.

For example, suppose you pay your credit cards on time, but you always make the minimum required monthly payments and have borrowed 95 percent of your total credit limits. That doesn't help your FICO score.

Instead, suppose your credit use compared to available credit is less than 50 percent, you always pay the monthly minimum payment or more, and you don't have any credit inquiries within the last six months. This situation greatly helps your FICO score, as

compared to the previous scenario.

ASK FRIENDS AND BUSINESS ASSOCIATES FOR MORTGAGE LENDER REFERRALS. Thankfully, not all mortgage lenders are the same. If you don't know a good mortgage lender, such as a bank loan officer or a mortgage broker, ask friends and business associates for their recommendations.

Contrary to popular misbelief, mortgage lenders are very eager to make home loans. The reason is home loan volume is down, compared to the near-record lending rate volume of last year.

There is plenty of mortgage money available. Also, mortgage agents work on commissions. If you don't borrow, they don't eat.

But lenders don't want to create risky home loans. An exception, however, exists for "sub-prime lenders" who make home loans at high interest rates to compensate for their higher risks with borrowers having low FICO scores.

There are even extreme "loan to own" mortgage lenders who make very high-risk home loans, knowing the loan will probably go into default and the lender will profit from the foreclosure.

Home buyers should shop carefully for the best mortgage terms to get pre-approved in writing by an actual lender before shopping for a house or condo to purchase. Getting pre-approved for the mortgage is often more difficult than finding a home to buy.

SUMMARY: Virtually everyone with a reliable income can obtain a mortgage to buy a house or condo. But the first step to home ownership is to check your credit reports and obtain your FICO scores. The second step, after clearing up any credit report errors, is to obtain written mortgage lender pre-approval so you will know the maximum mortgage available and your maximum home purchase price.

More details are in my special report, "How to Buy a House or Condo If You Have Less Than Perfect Credit," available for \$4 from Robert Bruss, 251 Park Road, Burlingame, CA 94010 or by credit card at 1-800-736-1736 or Internet PDF download at www.bobbruss.com.