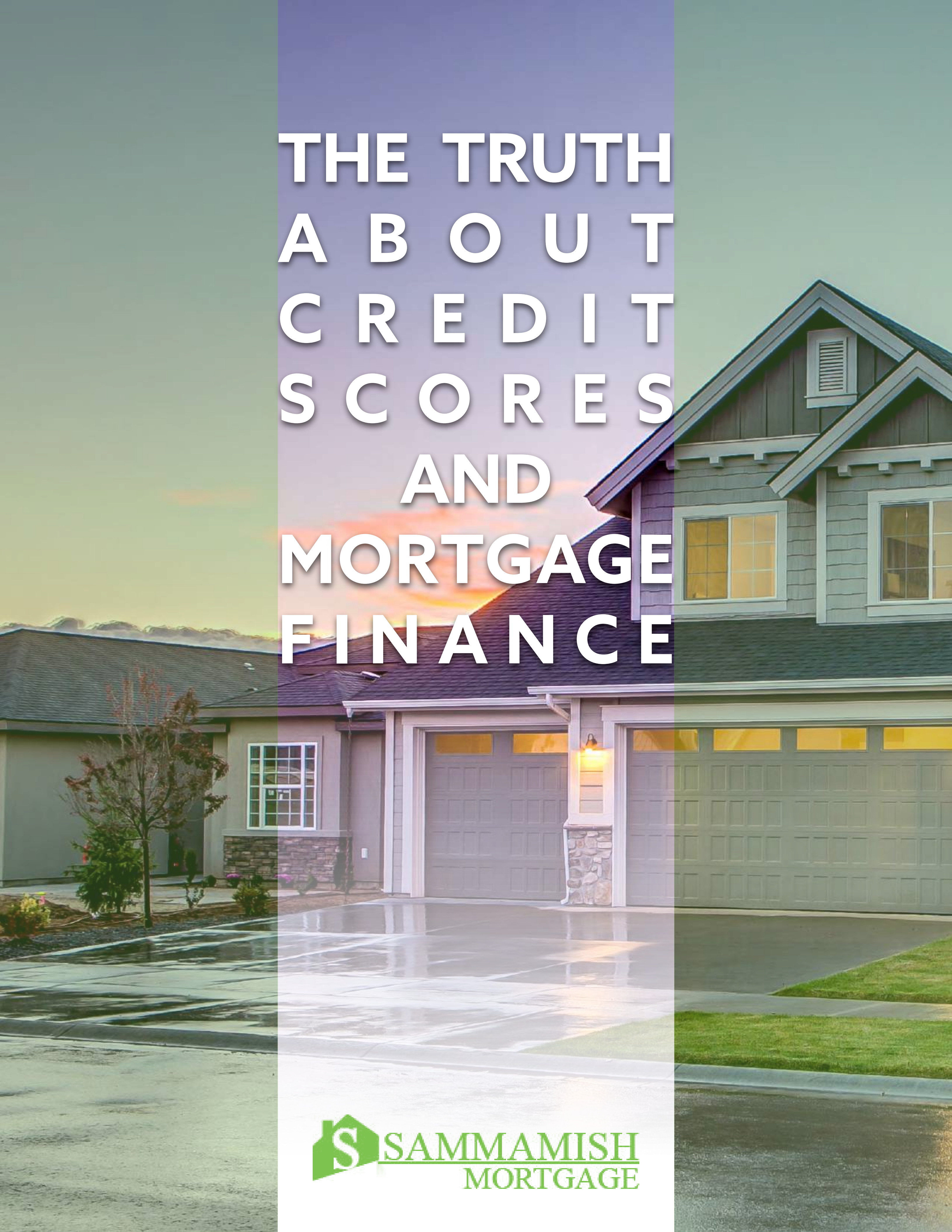


THE TRUTH ABOUT CREDIT SCORES AND MORTGAGE FINANCE

SAMMAMISH MORTGAGE

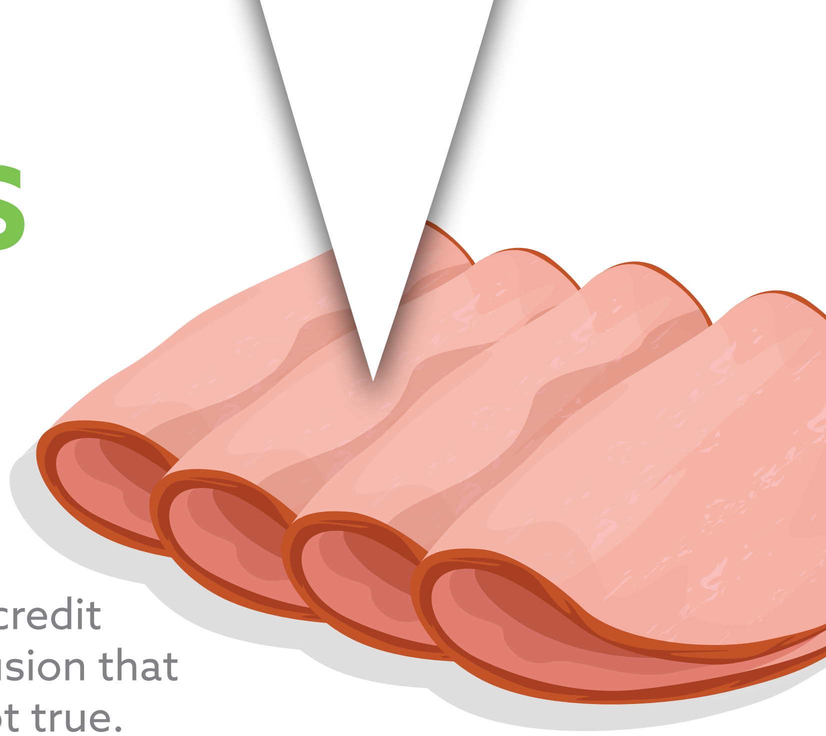
THE BIG LIE

A NUMBER OF RESEARCHERS AND JOURNALISTS POINT TO WHAT THEY CALL THE OVERLY STRINGENT CREDIT REQUIREMENTS THAT THE BANKS IMPOSE.

The Chief Economist for Realtor.com, Jonathan Smoke, says that banks are being so picky because today's low interest rates, combined with suffocating regulations, mean that they don't make enough money on each loan to justify accepting anyone other than near-perfect borrowers.

Some researchers point to very high average credit scores (median score is 759 so far this year) as evidence that the banks have raised their standards high enough to exclude many or most applicants. They say that, since the average credit score for approved loans is so high (a theoretically perfect score is 850), banks require those high scores to approve a loan.

THAT LIE IS BALONEY



Or maybe hogwash.
While the data about average credit scores may be true, the conclusion that those scores are required is not true.

Average scores are higher because more borrowers with higher scores are applying, and fewer are applying with lower scores—in other words, the sample is not representative of ALL borrowers.

This misleading statistic is harmful because it causes consumers—perhaps like you—to believe that they won't be able to qualify for a mortgage to buy or refinance a home because their credit is not perfect.

This is what is called a "self-fulfilling prophesy."

THE SCORE YOU NEED

Let's dispel the credit score myth right now: if your FICO score is at least 620, the odds are very high that your credit is sufficient to get a conventional mortgage. If it is as low as 580, you can get a government-insured FHA loan. While it's true the cost will be a bit higher than for a borrower with a higher credit score, those scores themselves are sufficient.

Most loan applications today are processed using an Automated Underwriting System, or AUS. Mortgage giants Fannie Mae and Freddie Mac provide the two most commonly used. If an applicant's loan is approved through the AUS and the loan officer has correctly input the borrower's income and assets, most lenders will approve the loan.

This should lead you to ask yourself,

"Do I know my credit score? Is it high enough?"

If you don't know your score, you should find out. Start by contacting a qualified loan officer. You'll be able to find out your status in minutes.

HOW TO RAISE YOUR SCORE

Even if you meet the FICO criteria, you should look at the ways you can raise your score.

Doing so will save you money on your new loan—possibly thousands of dollars.

You would employ the same steps to raise a very low score above the approval threshold.

Would you like to raise your credit score?

Here are 4 ways of raising your credit score quickly:

1

Pay credit card balances down to below 30% of your credit limit. As soon as your payment posts, give your loan officer screen prints of your accounts with the lower balances. They will be able to do a "rapid rescore" with the credit bureaus to update your scores in a matter of days.

2

Resolve any past due balances immediately.
A "past due" status is one of the more damaging forces on your credit report. Clearing them will give your score an immediate boost. As before, give a screen print of the new status to your loan officer.

3

If there are occasional late payments to department stores, call their credit office to ask them to remove the late payment. After all, you are a very good customer, and that late payment was just a momentary oversight. You might be pleasantly surprised at how often retailers are eager to help their customers by removing late payments.

4

If there is any incorrect information on your credit report, dispute it with the credit bureaus. They are required by law, under the Fair Credit Reporting Act, to investigate and confirm the accuracy of the information, or remove it. If they don't respond within 30 days, the negative information will drop off your report. This is the slowest of the credit improvement methods.
You can enter disputes with each of the three credit bureaus online.

CREDIT MYTHS

There are other incorrect assumptions in circulation, specifically how much loan a borrower can qualify for. A borrower qualifies for a loan's size based on his or her debt-to-income ratio (DTI), not credit score.

The lender adds up the housing expense (including taxes, insurance, and mortgage insurance, if any) and all monthly debt payments.

Dividing this number by the borrower's gross monthly income gives a percentage, the DTI.

If the housing expense is $2,000 and other debt is $475, the total debt is $2,475. If the borrower's income is $5,500, the DTI is 45%.

Some articles have claimed that reducing the DTI as far as possible by paying off more debt will get a **"better deal,"** but this too, is incorrect.

WE SHOULD DISPEL SOME MORE MYTHS HERE:

1. Inquiries from prospective creditors don't ruin your score. Credit inquiries make up just 15% of the FICO score. A "hard" inquiry, as from a mortgage company, will initially have little or no effect on your credit score. Multiple inquiries made for the same purpose within a 45-day time span are considered one inquiry. These “shopping inquiries” will have little or no effect on your score. On the other hand, opening three or four new credit card accounts over a three-month period WILL affect your score—possibly by a lot.

2. Paying off a collection account or one with past due payments won’t make the derogatory entry go away; the history will remain. An “active collection” account’s status will change to “paid collection” once you have paid it. Depending on how old the account is, it may or may not improve your score.

3. Putting a “consumer statement” in your credit file will have no effect on your score. It is your right to record the statement, but the primary result will be that you may feel a little better about yourself after doing it.

4. Paying off an installment loan, such as a car loan, will not help your score. For score improvement purposes, you will be better off using your money to pay revolving debt (credit cards) first.


NOW IS A GOOD TIME TO GET A NEW MORTGAGE
Don't simply assume that you won't qualify because of your credit score.
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