

# UNDERSTANDING THE { MORTGAGE PROCESS }

## Credit scores

One of the first things that happens when you apply for a mortgage is a review of your credit report. But it's also important to understand what impacts your credit well before you are ready to buy a home.

### 1 There are actually three reports combined into one.

The credit report used for mortgage loans is a combined report with information from three credit bureaus: Equifax, Experian and TransUnion. Each bureau provides slightly different information that is then merged into one report.

### 2 It's more than just a score.

Your credit score is a numerical representation of your credit history. Each credit bureau assigns a value to factors such as payment history, amount of credit used, length of credit history, types of accounts and new credit/inquiries. These values are plugged into a formula that determines your credit score. Ideally, you should have at least three open and active accounts (with credit still available) with a 12-month good payment history.

Your credit report also reflects negative credit factors, such as late payments, collections, judgments, bankruptcy, foreclosure/short sales and tax liens. Your Allen Tate Mortgage Consultant can help you understand how these items impact your credit, and what must be done to settle them before you can obtain a mortgage.

### 3 The higher, the better.

Your credit score is the middle score (not the average) from the three reporting credit bureaus. Your score will be a number between 300 and 850, with most scores ranging from 650-800 – the higher the better. If you are applying for a mortgage with a co-borrower, the lower of the two middle scores will be used to determine eligibility and interest rate. Each loan program has a minimum score that must be met to qualify for that particular type of loan.

### 4 Pre-approval vs. pre-qualification.

In both cases, a lender will “pull” your credit report. Pre-qualification will give you an estimate of how much home you can qualify for. Pre-approval (recommended in today's market) is a more comprehensive review of your finances and demonstrates to a seller that you can obtain a mortgage to purchase a home. And while multiple credit inquiries can negatively impact your credit report, a second credit inquiry (if necessary) may occur within a 30-day period as part of the mortgage process with no penalty.

### 5 Take a closer look.

It's a good practice to review your credit report once a year, to look for errors which can affect interest rates, loans, insurance premiums and more. To get a free annual report, visit [www.annualcreditreport.com](http://www.annualcreditreport.com).

## QUESTIONS?

Contact your Allen Tate Mortgage Consultant.