

Know your credit before you buy

As you begin your search for a home, one of the first – and most important – items of business is reviewing your credit report.

The credit report used for mortgage loans is a tri-merge report with information from three credit bureaus: Equifax, Experian and TransUnion. Each of these is unique to the mortgage lending process and provides slightly different information.

A lender will pull your full credit report, as well as your credit score – a number between 300 and 850 (with most scores 650-800, the higher the better) that represents your credit worthiness. Your credit score will be the middle (not average) score from the three reporting bureaus. 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 rate.

A good first step to buying a home is to get pre-qualified. Your mortgage consultant can help you with this, which involves completing an application and pulling your credit report to determine how you handle your finances. This will determine your “middle score,” provide an indicator of your credit risk, and give you a good idea of what loan programs and rates you may be eligible for.

While lenders are first and foremost looking at your credit score, which will be reviewed in conjunction with your documentation, they are also giving consideration to your history of using credit from a variety of sources.

Your lender is also looking for any derogatory credit items, which could include late payments, collection accounts, judgments, bankruptcy, foreclosures/short sales and tax liens. If there are any instances of derogatory credit, you will be asked to write an explanation letter; for example, your credit issues were the result of an illness or layoff.

Once a year, you can review your credit report provided by the Government, at no cost at www.annualcreditreport.com. This will provide you a list of your creditors and their contact information. Even if you are not in the market for a new home, this is a good practice as 35 percent of credit reports contain errors, which can affect many things, from credit cards to auto loans to insurance premiums.

To review your credit report and start shopping for a new home, contact your Allen Tate Mortgage Consultant.