

9 Credit Don'ts

When You're Trying to Buy or Refinance Your Dream Home

By Tom Armstrong of 97.1 FreeFM's The Home Ownership RoundTable

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Bad credit CAN get better, and good credit can become GREAT credit!

Don't # 1

Don't buy that new car, furniture, motorcycle, or whatever.

Your lender will look very closely at your recent credit activity. A spurt of large-item buying can be a danger signal; a borrower who is digging a hole... Also, your debt-to-income ratios will be affected by these new payments. If it's a close call, this could be the factor that kills your loan. New tradelines also typically lower your score, as they will lower the average age of your open accounts, plus incur inquiries, which lower scores in and of themselves.

Even if you're paying cash, think twice about it. Will this deplete your reserves? Lenders love homeowners with reserves. They interpret reserves as a sign that the borrowers can figuratively, 'take a punch'.

Don't # 2

Don't pay off old collections or charge-offs.

Credit scoring algorithms place more weight, good or bad, to recently dated information than older information. That makes sense. What happened last month is a better indicator of your present circumstances than what happened four years ago. So an old derogatory tradeline is not as damaging as a new derogatory tradeline. But, here's the catch. When you pay off that four year old collection, it will now be a brand spanking new Paid Collection. And your score will most likely drop. So, if you want to pay off the old debt, by all means do so, but do it AFTER the loan closes. Unless, of course, the creditor is willing to negotiate and cease reporting the tradeline in exchange for full payment.

Don't # 3

Don't close ANY credit cards or other tradelines.

This is probably the most prevalent and damaging credit myth there is. As mortgage professionals, we see it every day. The borrower says, "See, I paid off all my accounts and closed them." MY scores should go through the roof!". Uhhh. Not exactly. While paying off your revolving debts is always a good idea, and will positively affect your credit scores, by closing the accounts, these same borrowers have lowered their scores, most likely below where they started.

There are several reasons for this. The credit scoring algorithms reward and punish several factors. Among these are average age of open accounts, 'mix' of positive tradelines, and credit utilization ratios. By closing these accounts, the unwitting borrower usually negatively impacts all three of these factors.

Put 'em in a sock drawer. Cut 'em up. But don't close the accounts.

Don't # 4

Don't skip any mortgage payments while your refinance is underway.

Just don't take any chances. If you haven't made your 1st of the month payment because you are refinancing, and your new loan doesn't fund until the end of the month, your escrow company may not send the payoff until the next month. Guess what? You just got a 30 day late on your credit.

Or worse, something holds up the funding until after the first of the next month. The lender automatically asks for an updated payment history, and all the sudden, your new loan is declined or the rate is raised to reflect the 30 day late on your credit.

If you make the payment, and the new lender makes the payment also as part of the payoff, the extra money will be refunded within a couple of weeks.

Don't take the chance. Make the payment.

Don't # 5

Don't let your credit utilization ratios get over 50%.

Even better would be <30%, better still, <15%. A MAJOR component of your credit scores is the percentage of your available credit that you are using. Pay them down. Get your limits raised. Do both, but get your ratios down. When your ratios are high and you are asking for new credit, the lenders view this like throwing an anchor to a drowning man.

**Don'ts # 6-8 are for those borrowers who need to build up their credit from scratch in order to get a mortgage.
9 is for EVERYONE.**

Don't # 6

Don't put a 100 word statement in your credit report.

It seems like a good idea; tell your side of the story and all. But most automated scoring systems DO NOT read them at all. Some automated systems take their mere presence as a red flag. The tri-merge credit reports that mortgage brokers and lenders use won't even show them. There just is no up side. Just say no and move on with the business of building or rebuilding your credit.

Don't # 7

Don't get high fee starter credit cards like Cross Country Bank, First Premier and Aspire.

The fees will eat up half or more of the credit limit each and every year. Instead, get a secured credit card from a reputable bank or credit union. It is imperative that the secured card reports to all three credit bureaus as a revolving tradeline, so ask before you sign up. Here is a list of some secured cards that meet this criteria, have low annual fees, and can convert to an unsecured card after a period of timely payments.

- **National City Secured Card** (Click Here For Mail-In Application: <http://tinyurl.com/hs6jo>)
- **Citibank Secured Card** (Click Here For Mail-In Application: <http://tinyurl.com/k24qa>)
- **Wells Fargo Secured Card** (Click Here for Online Application: <http://tinyurl.com/zvm6h>)

Quantity (number of tradelines) is important as well as quality (credit limits). So, if you are starting from scratch, it would be better to have three \$300 limit secured cards than one \$900 limit card.

Step 8

Don't get a card that doesn't report credit limits.

The most notorious of these is Capital One. The credit scoring algorithms will treat your highest ever balance as your limit for calculating ratios. This can be good, if for instance, you have maxed out the card and have now paid it down, but if you have a high limit and have always kept your balance low, your score will be punished because your card always looks like it's maxed out. See? That's No Hassle, is it?

If you already have one of these cards, see **Don't # 3**.

Step 9

Don't fall for identity theft scams.

NEVER, EVER, EVER give your credit card information out if you did not initiate the contact. Some of the schemes are so clever they could easily fool you. These guys are good. Look at this screen shot of an e-mail recently received by one of the members of the Home Ownership RoundTable:

Message from eBay Member - Message (HTML)

Click here to turn on links. To help protect your security, links are turned off in this message.

From: eBay-Mitglied gret [member@ebay.com] Sent: Fri 5/5/2006 8:10 AM
To: tarmstrong@extracredit.net
Cc:
Subject: Message from eBay Member

eBay sent this message.
Your registered name is included to show this message originated from eBay. [Learn more.](#)

Question from eBay Member -- Respond Now

eBay sent this message on behalf of an eBay member via My Messages. Responses sent using email will not reach the eBay member. Use the **Respond Now** button below to respond to this message.

Question from gret	gret (2) Positive Feedback:100% Member Since: Oct-30-03 Location: CA, United States Registered On: www.ebay.com
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Activity with gret (last 90 days):
- I have bid on 0 items from gret

Hello,
I recently placed a bid on item#5669378843 being a wheelchair for me that i really need do to my age(87 years old) and it seems that i can not find the auction anymore...May i please know if you are the seller of the item above?
Regards,
Greta

Respond to this question in My Messages.
[Respond Now](#)

Thank you for using eBay!
<http://www.ebay.com/>

Marketplace Safety Tip
Do not respond to the sender (through the eBay system or your email provider) if this message is an offer to [buy or sell an item](#). This type of offer is against eBay policy, may be fraudulent, and is not covered by buyer protection programs.

Second Chance Offer
emails with the subject of "Message from eBay Member" are fake. Real [Second Chance Offers](#) come directly from eBay and appear in [My Messages](#) with a blue

The bottom of the screen was even better. It had eBay's real address and phone number. It had a warning about responding to spoofmail (the latest web term for this kind of e-mail). It was perfect.

It's a fake. It was reported to eBay, who in turn reported it to the authorities, but we can't help but wonder how many people fell for it. Just like those crazy Nigerian scams. Somebody must fall for them, because they keep sending them out.

Protect your identity. Protect your credit.

Don't fall for it.

* * *

Mortgage regulations have changed significantly over the last few years, making your options wider than ever. Subtle changes in the way you approach mortgage shopping, and even small differences in the way you structure your mortgage, can cost or save you literally thousands of dollars and years of expense.

Get the Right Information - Whether you are about to buy your first home, or are planning to make a move to your next home, it is critical that you be informed about the factors involved.

Every day, people turn to a mortgage lender to help them get a home loan, but because many of them do not know what questions, if any, to ask, they often make incorrect choices. By taking these few minutes to acquaint yourself with the **9 Credit Don'ts When You're Trying to Buy or Refinance Your Dream Home** you can reduce or eliminate the chances of making a critical error and save thousands on your mortgage.

A Gift to You From:



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