

Credit and Credit Repair

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We are not credit counselors, but are happy to extend these general, credit tips. Credit repair can take time, but it is worth the effort because you will get approved for lower interest rates and an easier loan process with a good credit record. Better yet: You can handle it yourself, especially with our advice.

Introduction to Credit Reports:

In the mortgage approval process, when we try to pre-qualify you for a mortgage loan, we first obtain an "in-file" credit report with your authorization. The in-file reports show any or all of the following information:

- Your name, and address and social security number. There may be references to other names (ie: maiden name) and addresses you have used.
- Sometimes your employer, employment date(s) and birthday are listed.
- Credit information that is listed can include:
 - Open and closed accounts (these never had any late payments);
 - Accounts that had 1 or more late payments: Derogatory accounts, collection accounts, accounts "charged off" (meaning the creditor has assumed they are not likely to ever be paid),
 - Repossessions, judgments, bankruptcies, foreclosures.
- Credit inquiries within the last 90 days to 2 years.
- Usually the account information includes the date the account was opened, date it was last updated, dates of delinquent payments, present or last balance, the credit limit and high balance, monthly minimum payment and amount overdue.

"FICO" Scores: You should be aware of the credit scores that the major bureaus produce. These scores, often known as "FICO" scores, are a component of the "mortgage credit report". They are becoming increasingly important in the loan approval process as a means of stating a person's credit-worthiness. They are especially important in the qualification process for "conventional" loans. When credit scores are a criteria for loan approval, the lender will base the approval, or rejection, on the middle score or the lower score if there are only 2 scores available. If there are multiple borrowers, the decision will be based on the borrower with the highest income OR the borrower with the lowest scores...it varies from lender to lender.

Some reports have more information than others because not all creditors report your accounts to every bureau. Because the bureaus don't share information with each other, their reports will contain different information and varied credit scores. Sometimes, when you actually, formally, apply for a mortgage we may obtain a "full-factual" credit report, also known as a "residential mortgage credit report" (RMCR), for you. This report is a composite, or merge, of 2 or 3 of the major credit bureau's reports. The company that supplies this report to us will interview you by phone and verify your debt, mortgage (or rent) and employment by phone. They are willing to cooperate with you and us to clear up various discrepancies so to help us approve your loan.

Please be aware that, if an "RMCR" is utilized, changes to it do not affect the contents of your files at the major bureaus, at least not immediately. Lenders allow us to use an RMCR because they realize that it can take quite some time to correct the source reports from which it is created. Without RMCR reports, it could take many months to clear up your source credit records with each bureau and obtain your loan.

After examining the "in-file" report, we may mention that your credit record or credit score needs to be improved before we can get you approved for a mortgage loan. If you are unsure how to work with your creditors and the major credit bureaus, we can direct you to work with a credit information company that is experienced in these matters. A credit information company does not pay your debts for you. It is merely a means to correct your records and advise you as to which steps are most likely to improve your credit rating.

You can try to improve your credit situation and clear up discrepancies by working directly with your creditors and with the three major credit bureaus or repositories: CBA/Experian (formerly TRW), Equifax (formerly CBI) and Trans-Union. You can find some of the steps it may take to correct your credit below. You will need a copy of each credit bureau (a/k/a credit repository) before you can deal with them. If you have been rejected for a loan, the lender must give you a letter to that effect. That letter will serve to get you a free copy of your credit report from the bureau(s) on whose reports the denial of credit was based. In any event, you will find it almost impossible to talk to the bureaus until you have obtained a credit report directly from them. In general, they will not discuss the results that we got when we pulled your credit.

If you cannot get a free report directly from a bureau, as above, each bureau will charge you \$3.00 to \$15.00 for their report of your credit. But don't forget that recent federal law requires that each bureau make their report of your credit history available to you, at no cost, at least once a year. You can request it by phone, mail or online. For further information, go to the www.annualcreditreport.com to obtain the telephone number, address or web form to make your request. Be aware that this is the ONLY website provided by all 3 major bureaus for the government-mandated annual free report. All other sites have hidden fees, even if they appear to be "free".

When working with each bureau, "keep your cool". The bureaus are only keepers of databases of credit records. They are not the source of the information and the mistakes may have originated with the actual creditors. If you can prove a mistake and document it, each bureau is only too happy to correct your credit record. The goal of each bureau is to have the most accurate records possible.

If you want to try to work with the bureaus to correct your credit record, here are the major bureau's current addresses and telephone numbers, but you must have their report on you before they will speak to you:

CBA/Experian 111 Woodcrest Road Cherry Hill, NJ. 08034 800-248-0470 800-854-7201 (TX)	TransUnion Corporation 760 Sproul Road Springfield, PA. 19064 800-888-4213	Equifax/CBI Peachtree-Dunwoodie Rd. Suite 600 Atlanta, GA 30374-0241 800-685-1111
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Address your correspondence to the Credit Dispute Department.

What Hurts Your Credit?

Here, from real bad to not-so-bad, are the problems that hurt your credit and your chances for being extended more credit. Also, here are the reasons why they hurt you (how a future creditor looks at them) and some comments on each problem:

- **Foreclosure** -- The worst problem, Seems to show that you already "blew it" when someone trusted you with a mortgage.

In general, because most lenders consider it to be "throwing good money after bad" to make a loan to a person with a foreclosure in their past, most lenders require at least 3 years before considering a new loan to them. You should never let payment difficulties get to the point where your lender files foreclosure documents against you or the sheriff actually auctions off your property. Contact Us Now! We may be able to help you save your property if a foreclosure is looming on the horizon. We can't help everyone, but it is certainly worth calling, writing or sending an email to us.

- **Bankruptcy** -- Seems to demonstrate that you voluntarily managed your finances so badly, lived beyond your means, etc., that you needed government protection to salvage your finances.

Formerly, a bankruptcy without justifiable reasons, meant a wait of 2 to 4 years (after the date of the discharge) before you could get a mortgage. With good justification, it meant a wait of 1 to 2 years. These days, there are lenders that will approve a mortgage loan one day after the discharge! Also, it is very possible to get a mortgage prior to discharge of a Chapter 13 (repayment plan) Bankruptcy. You will need the approval of the court and your trustee and you may need to wait a certain period. Ask your loan officer for details.

Potential mortgagors (you) generally need to show that new credit has been issued to you after the bankruptcy in order to be approved for a new loan...even if it is secured credit cards (cards which require a deposit in the amount of the credit limit). You must also use the credit and pay promptly. What you are doing is showing that you have used the "second chance" given by the bankruptcy, can now handle credit wisely and are no longer a credit risk.

Late payments after a bankruptcy, during the 10 years that they remain on your credit report, hurt badly! The very worst things you can do after a bankruptcy are to pay your mortgage and other debts late or have a poor rent payment history. A very justifiable reason for derogatory credit after a bankruptcy (such as involuntary job loss or health problems) will be needed in order to qualify for a mortgage. The derogatory credit may boost your down payment requirements and interest rate. It may be a bit easier to qualify for an FHA or VA loan, but it is

still a challenge to overcome post-bankruptcy credit problems. Even if you were merely careless, lenders tend to consider that you "blew your second chance" by making late payments after the BKR.

- **Repossessions** -- repossessions seem to show that you couldn't handle a fairly large recurring debt. If there is still a balance owed that is not on a payment plan, it seems to show that you have no concern about repaying the debt.

There are two major problems with repossession: First, it is a default on a large loan -- usually second, in size, only to a mortgage or rent payment. Second, most people don't repay the balance owed or get on a repayment plan because they believe that giving the vehicle back, voluntarily or otherwise, eliminates any balance owed. It doesn't! A repossessed vehicle is usually auctioned off and the auction often yields less than the balance owed on your loan. You owe the difference between that balance and the auction amount. Unfortunately, you may not even be aware that there is still a balance due on the vehicle that you no longer own. To mitigate the effect of the repossession, you will need to repay the balance owed, negotiate a smaller payoff, if possible, or get on a repayment plan and show 6-12 timely payments.

- **Judgments, Charge-Offs, Collection Accounts, Balances on Accounts Closed by the Creditor** -- Aside for the fact that a debt wasn't repaid, these (listed in order of importance) also seem to show a lack of concern for ever repaying the debt because you allowed them to go so far that the creditor was forced to go to court, contact a collection agency or close the account down.

As with repossessions, mortgage approval may require that you pay off these debts, or get on a repayment plan and show 6-12 timely payments. Some of these debts will vanish from your credit report after a number of years. Make no mistake though, you still, probably, owe the debt and there are a number of ways for the creditors to make them reappear on your credit report...such as obtaining, or reinstating, a judgment against you. Some mortgages will ignore old or small delinquent debts...but the interest rate will be higher than normal.

- **Late Payments** -- If more than a occasional, not confined to an explainable period and recent as well, late payments seem to show sloppiness in your finances, erratic ability to repay (maybe because of fluctuating income) or lack of concern for repaying debts.

These are easiest to handle because the creditor has not reached the point of denying you future credit by closing your account or taking further action. Bring them current or contact the creditor and tell them you want to do so. Make whatever repayment arrangements with the creditor so that you can to keep the account from being closed. It is always better to contact your creditors, if you must be late, than to "bury your head in the sand" and simply pay when you can.

- **High Balances to Limits; Too many or too few credit accounts; New Credit; Non-use of credit accounts:**

To achieve the highest scores, you should not exceed your limit and your balances should not exceed 50% of your credit limits on any consumer credit (non-mortgage, non-loan) account. Not exceeding 30% is even better. Too many or too few accounts will hurt also. The ideal credit mix is a home mortgage, an installment loan (such as a car payment) and about 3 credit or store cards at least 24 months old (at least 2 of which having limits of at least \$1,500 to \$2,500). New credit hurts credit scores because the assumption is that this new availability of credit "may be the straw that breaks the camel's back." Believe it or not, even though having too many accounts, or too many accounts with balances can reduce credit scores, closing them will also lower your score temporarily. Finally, to maintain a credit score, you must use some credit at least once every 6 months...or your scores will disappear! Even if you spend \$10 on a card and pay it immediately, your scores will remain.

NOTE: Why do some of the above sections say "SEEMS TO SHOW" over and over again? Because, like it or not, credit bureaus and lenders routinely make assumptions about how you will handle credit in the future based on how you handled it in the past. Often, however, you may have had totally valid reasons for credit problems. If they are justifiable, you may still obtain financing without too much problem. If you think that your credit problems are justifiable, please contact us. One of our loan officers may be able to show you how to get the loan you want in spite of the past problems.

No credit problem is eternally insurmountable. Even in a worst-case scenario, when no loan is possible now, we can help you a plan for the future. We aren't going anywhere. We will be here when you need our assistance!

Improving Your Credit Rating

To Improve your credit rating, you will need to do some or all of these steps:

1. Obtain your credit report from the above companies;
2. Learn what your rights are under the Fair Credit laws and be aware of how long the bureaus have to respond to you and what you should do if they do not respond properly or in a timely manner;
3. Identify and disput errors, duplications and omissions (such as payments that were made but not shown or included in a bankruptcy but that is not noted on the report);
4. Pay off small delinquent accounts and get on a payment plan for large delinquencies;
5. Reduce the amount you owe, compared to your credit limit, to less than 50%;
6. Avoid excessive credit inquiries...we cannot help you without pulling our own credit report about you, but don't let everyone do so; A periodic credit "pull" is reasonable, many within a few months is not;
7. If you have a lot of accounts that are open and seldom used (especially regular accounts as opposed to store charge accounts), close some of them down;
8. Obtain additional credit, if you don't have much (try locally-based stores, gasoline and secured credit cards)...but avoid opening numerous new accounts if you have 5 or 6 open accounts...new credit accounts hurt your credit score until they have been open for a year or so;
9. Notifying the credit bureaus of the actions you're taking;
10. Adding positive information to your file, such as regular credit payments that are current but not showing on the reports because the creditor is not a subscriber of the bureaus (such as employee loans, private mortgages or mail-order installment payments);
11. Adding a brief (100 words or less) Consumer Statement (a note explain your side of a credit dispute that you could not satisfactorily settle);
12. Waiting for results to show on the reports.

Don't give up when it comes to dealing with the credit bureaus! Write them repeatedly until your records have been corrected and updated. We have some sample letters available for free that you can use when writing the bureaus. Even if you are able to phone the bureaus and discuss your issues with them, you should send them correspondence to document the discussion and retain copies. And, keep copies of everything mailed and records of who you called, who you spoke to, what was said, etc.

We strongly recommend that you purchase a copy of CREDIT-AID software, from the "Credit Doctor". For less than \$40 you will obtain a wealth of information above what is in this document, credit letters, record-keeping database and much more. We highly recommend it and the cost is a small fraction of the cost of utilizing any credit-correction company. As the FTC says, "Anything that a credit correction company can do for you, you can do for yourself". You can find a link to the software at the following website, www.questconsultants.us toward the bottom of the page.

Keep in mind that paying these debts may be required in order to obtain a mortgage (especially FHA). If you have the choice, it may be better to pay the debts and put less money down, than the reverse...and, if you can get the seller (in a purchase) to pay some closing costs, some of this money will come from their pocket:

- Judgments, often, will have to be paid off in full, in many instances (or put on a payment plan in other cases) because they may affect the title to the real estate you buy.
- It may be advisable to pay off all small debts on which you are delinquent and arrange for payment schedules on larger delinquent debts—then pay as agreed for at least 6 months. You may be able to get a creditor to agree to accept less than the original debt if you pay in one lump sum. It doesn't hurt to ask. Even if a lender doesn't require the repayment, it will still lower your monthly debts...Did you know that paying only the minimum on a credit card will stretch payment to as long as 33-39 years?

In terms of disputing your credit report or having corrections made to your report:

- You must provide solid proof to the credit bureaus to support your contentions regarding errors or omissions. This will usually have to be more than just a letter from you. Often, the bureaus will want a letter from the creditor. But, with solid evidence that your credit report shows debts that are not yours, incorrect figures or debts that have been paid, you can usually induce the credit bureau(s) to remove, modify or update information that is on your report.
- The credit bureaus are required to remove an item from your file if a creditor doesn't respond to the bureau's inquiry (prompted by you) within 30 days (even if the debt is legitimate).

- A word of caution...Some people dispute credit items that are legitimate with the hopes that the creditors or bureaus will not respond within the time allowed. Occasionally it will give them a short "window" of time with these items omitted. But, the bureaus and creditors are aware of the law and are, generally, good at responding within the time allowed. And, bear in mind, that the omitted items will usually appear at some point when they are show to be legitimate...or when the creditor takes the collection effort to the next step, such as calling in a collection company or obtaining a judgment. (Being forced to omit an item from a credit report doesn't eliminate the creditors other remedies to get paid!)

The FTC handles complaints against credit bureaus. If the credit bureau doesn't respond to your request to investigate your claim , you can contact the Federal Trade Commission at: Call Toll-Free: (877) FTC-HELP or Write: Consumer Response Center, Federal Trade Commission, 600 Pennsylvania Ave, NW, Washington, DC 20580. On-Line: <http://www.ftc.gov> or try <http://www.ftc.gov/ftc/complaint.html> to make a complaint. You are protected by the Fair Credit Reporting Act which gives you specific protection under the law!

Remember that each bureau is an independent company. Successfully working with one company will not affect the others. Each bureau must alter their own incorrect file based on proofs and information that you supply to them. That is the reason that credit repair takes such time.

Credit Counseling: You should be cautious when you choose to have a credit counselor or credit correction company to assist you in improving your credit rating whether or not the company will put you on their own repayment plans. There are several reasons to be cautious:

If they are a formal credit counselor, they will appear on your credit report. Believe it or not, using the credit counselor hurts your credit score...possibly for the same reasons a Chapter 13 (repayment) bankruptcy does...it shows you couldn't handle your credit and repayment without outside help.

There are good and bad counselors out there. You should be particularly suspicious of anyone who says they can completely clear your bad credit by offering you the opportunity to obtain a new federal ID number. You could end up being charged with fraud!. We suggest that you investigate the free or low-cost Consumer Credit Counseling Services that exists in most areas. To locate a local office, call The National Foundation for Consumer Credit, at 1-800-388-2227, or try contacting the NFCC online: : <https://www.nfcc.org/help/locator.html> on-line. If you do choose to use a private firm, be careful of contracts you sign and remember that they are allowed by law to charge only a minimal up-front fee. More credit information is available from the US Consumer Information Center. Go to <http://www.pueblo.gsa.gov/money.htm> on-line.

CAUTION!!! Computer Security and Identity Theft : It is up to you to protect the security of your confidential information. Identity theft is a horrible epidemic and much of it is perpetuated thru illegal computer access or by means of the internet and email. All someone needs to know about you to "steal your identity" (that is, to have credit issued to them, but in your name)...is your name, address, birthdate and social security number. We highly recommend that you retrieve our information and suggestion document on this subject, as well as other commonly perpetuated frauds. Just go to our home page at www.questconsultants.com and scroll down to the bottom of the page. It contains a lot of information, links to good free software, etc. You do not need to implement everything at once, but every step you take will result in further protection that you should have.

How We Can Help You:

- As was mentioned above, we are not credit counselors. On the other hand, our experience can help you get your credit on track by providing, at no cost or minimal cost, as follows:
- We can tell you, from our point of view as a lender, what items of your credit either caused us to reject you for a loan or prevented you from getting the most favorable loan type or rate;
- We can expand on the advice that is listed above;
- We can provide you with blank letters of various types that you can use to write to your creditors or the major credit bureaus;
- We can run a credit analysis that will make suggestions for improving your credit scores and advise you as to the amount of cash it will take for you to obtain the most improvement to your credit.

- If you have inadequate credit history, we can give you suggestions on how to expand your credit and also direct you to a credit bureaus that can construct a credit report, accepted by a few lenders, based upon alternative credit history, such as utility bills, etc.
- We can, for the actual cost, attempt to have "quck corrections" made using the documentation you provide to us. Averaging \$35 per borrower, per account, per bureau, these corrections take 3-5 days to accomplish and include a revised credit report from the appropriate bureau(s). (Bear in mind, however, that there is never a guarantee that the bureause will modify the report as you desire.)
- We can advise you as to investors that we work with that may overlook old credit records or allow "bad credit" to remain in place.
- We may be able to obtain a mortgage for you, with somewhat less than the most favorable terms, and then refinance the loan when you have improved your credit records.

If you need further assistance, we are always available to answer any further questions, you may have, regarding how credit issues affect mortgage approvals. Please feel free to contact us.

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