

The Top Ten Do's and Don'ts about Credit During the Loan Process

Following are some helpful tips to avoid the credit mistakes that many borrowers make during the loan process:

DON'T APPLY FOR NEW CREDIT OF ANY KIND. Including those "You have been pre-approved" credit card invitations that you receive in the mail. Every time that you have your credit pulled by a potential creditor or lender, you lose points from your credit score immediately. Depending on the elements in your current credit report, you could lose anywhere from 2-50 points per inquiry.

DON'T PAY OFF COLLECTIONS OR CHARGE OFFS during the loan process. Paying collections will decrease the credit score immediately due to the date of last activity becoming recent. If you want to pay off old accounts, it can be done at the closing of your loan, just make sure that 1) you validate that the debt is yours, and 2) that the creditor agrees to give you a letter of deletion.

DON'T CLOSE CREDIT CARD ACCOUNTS. If you close a credit card account it will appear to the credit reporting bureaus that your debt ratio has gone up. Also, closing a card will affect other factors in the score such as length of credit history. If you need to close a credit card account, do it after closing, and make sure it is a more recent account.

DON'T MAX OUT OR OVER CHARGE ON YOUR CREDIT CARD ACCOUNTS. This is the fastest way to bring your score down 50-100 points immediately. Try to keep your credit card balances below 30% of their available limit at all times during the loan process. If you decide to pay down balances, do it across the board. Meaning, make an extra payment on all of your cards at the same time.

DON'T CONSOLIDATE YOUR DEBT ONTO 1 OR 2 CREDIT CARDS. It seems like it would be the smart thing to do, however, when you consolidate all of your debt onto one card, it appears that you are maxed out on that card, and the system will penalize you as mentioned above in 4. If you want to save money on credit card interest rates, wait until after closing.

DON'T DO ANYTHING THAT WILL CAUSE A RED FLAG TO BE RAISED BY THE SCORING SYSTEM. This would include adding new accounts, co-signing on a loan, changing your name or address with the bureaus. The less activity on your reports during the loan process, the better.

DO JOIN A CREDIT WATCH PROGRAM. If you join a credit watch program, you can check your reports weekly, or even daily depending on the program you select. (When you pull your own reports, you don't get dinged for a hard inquiry.) This way, if something does show up on your reports that has caused your score to go down, you'll know it immediately, and you may be able to take care of the problem before closing.

DO STAY CURRENT ON EXISTING ACCOUNTS. Like your mortgage and car payments, one 30-day late can cost you anywhere from 30-75 points in your credit score.

DO CONTINUE TO USE YOUR CREDIT AS NORMAL. Red Flags are raised easily with the scoring system. If it appears that you are changing your pattern, it will raise a red flag, and your score could go down.

DO CALL YOUR BROKER if you receive something in the mail from a creditor or collection agency that you believe may affect your score during the loan process. Your lender may be able to supply you with the resources you need to stop any negative reporting to the bureaus.



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