

Understand Your Credit Report Before Applying for a Home Loan

By J. Lennox Scott

If you are a prospective homebuyer, one of the first things you should do is get a copy of your credit report—especially in light of the disruptions to the current mortgage market. That's because your credit is the first thing a lender will look at when considering you for a home loan. Even if you have always paid your bills on time, it's worth your time to attain copies of your credit report to ensure their accuracy and avoid any unwanted surprises.

Studies have shown that many credit files contain inaccuracies that could affect your credit rating, and even lead to the rejection of a loan application. That's why reviewing your credit report beforehand is a very good idea; doing so will give you the time you need to dispute anything that appears inaccurate.

There are three major credit bureaus that most creditors use; they are Equifax, Trans Union, and Experian. It's a good idea to attain credit reports from all three because each could say something different about your credit history. Creditors don't have to report to all three bureaus, so the only way to get a complete overview of your credit is to request reports from all three. You can go to www.MyFico.com to attain all three reports. However, it's important to understand that MyFico.com only report consumer credit scores which can differ from the credit score that is used by a mortgage company when you apply for a home loan. This reinforces the importance of meeting with a loan officer early on in the home buying process.

Once you receive your credit report, review it for any clerical inaccuracies. These may include payments not credited, late payments, or data mixed in from a credit file of someone with a name similar to yours. Credit bureaus generate your report on information they receive from your creditors, so you'll want to review everything very closely and dispute any errors.

It's important to understand the content of your credit report and how a lender will read it. For example, late payments and charged off accounts remain on your report for seven years and bankruptcies last for 10. Most lenders will look for a pattern of payment rather than focusing on one-time events or rare occurrences, so consistent, on-time bill payments should override small blemishes on your record.

If you find an error on your credit report you can either complete the dispute form provided with your credit report or write a letter to the credit bureau. Clearly identify each mistake and state why it's wrong. Make a photocopy of your report with the mistakes highlighted and include copies of supporting documents. It's very important that you keep copies of any documentation that you send credit bureaus, plus the dates that the items were sent. The credit bureau must investigate any relevant dispute within 30 days of receiving your letter. Any item that is not verified as accurate by a creditor will be removed and you will be sent a free, updated copy of your report.

Understanding how your credit report affects your financial future is essential to smart credit management. It is wise to incorporate a timely review of your credit report into your financial planning, especially when your end goal involves a major purchase, like a home.

REALTOR[®] J. Lennox Scott is the Chairman and CEO of John L. Scott Real Estate. You can visit his Web site at www.johnlscott.com.

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For More Information Contact:
Shelley Rossi
Director of Public Relations
John L. Scott Real Estate
206-230-7627
shelleyro@johnlscott.com