



Lesson Plans For Home Ownership

Goals & Credit = Loan Options





Knowing your Goals & Credit = Loan Options

Most lenders focus on your credit as the key factor in placing you into a certain type of loan. While your credit is important...It is your intended goals for this property that should define your loan options. If you are looking to hold this property for the long term then you may be looking for a 30 year fixed loan that is paid off within the 30 years or sooner. If you intend to only keep this home a few years, then an interest only loan may make the most sense. It will keep your monthly payment low.

No matter what your goal is, there is a loan program for everyone. It is very important that your team have your goals in mind too.

Exercise: Identify your Goals.

Before you engage in the process of finding a home (step 3) it is important to discuss 3 areas : Credit, Loan amount/monthly payment, and LSRs.





Credit

Do you understand how your credit score is calculated? While most people don't want to know how their score is calculated it is important to know that the credit bureaus gather information on your credit payment history, which forms the basis of your credit report. A credit report is a record of an individual's past borrowing and repaying, including information about late payments, bankruptcies and foreclosures.

The bureaus use that information to compute a credit score. Your score is a number between 300 and 850, with 850 being the best credit score and 300 the worst. Lenders use your credit score as a general indicator of your creditworthiness, so if your credit score is low, it is likely that you will be charged higher interest rates.

You can get your credit report for free; however most credit scoring agencies make you pay for your score. By law, every year, you can request a free report from any of the credit bureaus.

Mistakes do occur, especially for people with similar names or social security numbers and in some occasions identity theft. That's why checking your report and score before you get a mortgage is important. If there is a mistake that could hurt your credit score, you'll want plenty of time to get the error corrected.

To correct an error, you need to write the credit bureau, describing the problem. The credit agency must investigate the items in question, usually within 30 days. Sometimes you can handle this yourself, though other times you may want to use a credit repair service to help you. Your mortgage broker should be able to refer you to a credit repair specialist.

Attached you will find a worksheet that will walk you through how to receive a credit report and how to read your credit report.





Monthly Payment:

One final step to consider is the price you are willing to pay for a home. While your mortgage broker can provide you with exact numbers, a simpler way to gauge how much you can afford each month is to use a percentage of your income. A general guideline that many lenders use is that no more than 28 percent of your total monthly income should go toward your mortgage payment (including taxes and insurance) No more than 36 percent of your total income should go to pay total debt, including credit cards.

For example, if your monthly gross income is \$5,000, then 28 percent, or \$1,400, would be your total housing expense. In some areas, such as California, lenders expect a greater portion of income to go toward housing expenses. However, the closer to the 28 percent guideline you can get, the better off you will be.

Exercise: Calculate your estimated monthly payment:

(your gross income) x .28 = _____





Loan Status Report (LSR)

An LSR is a document that you get from your loan officer that your Real Estate agent can use to submit to a seller that shows you are pre-approved for financing. After an application is taken by a lender and they perform their due diligence to approve you in good faith, you get a Loan Status Report. This document states that you have consulted with a lender and are pre-approved to purchase a house. The letter will have a maximum dollar value on it indicating how much money you have been approved for. It will also indicate what kind of financing you are approved for and the amount of your down payment. This letter is usually submitted with a purchase contract to notify the seller that you have your money, and you are a serious buyer.

Personal Information needed for LSR

- Name
- Social Security number
- Contact Information
- Residential address for the last 2 years
- Work history for the last 2 years
- Income
- Assets
- Let them pull your credit





Credit Report

There are many ways to get your hands on a credit report today. But like many things in life, you get what you pay for. There are three major credit reporting bureaus and all three of them are relevant in the mortgage industry; Experian, Equifax, and Transunion. All three of these bureaus can be found on the internet and all three of them will allow you to request a free copy of your credit report.

- experian.com
- transunion.com
- equifax.com

After you receive a copy of your credit report they will try to enroll you into a credit monitoring service with a monthly fee. In some cases, they automatically enroll you and you have to contact them to turn off this service. We are not saying that the credit monitoring service is not without value, but you do not have to pay them just to view your credit. If you find an inaccuracy, you will have to pay a fee to the bureau and then you can dispute the credit item on-line. We recommend direct contact with the bureaus to eliminate the delays and additional fees of middle-men.

There are other popular on-line services that will give you a credit report for free too. The well advertised freecreditreport.com is a good example. They will give you a single bureau (Experian) report for no cost. However, you will begin a free trial membership in their credit monitoring program as well. If you don't cancel your membership within 7-days, you will be billed monthly until you cancel. To dispute any inaccuracies on your report you may have to pay extra fees. It is the same structure as dealing with Experian directly.

How to read a credit report:

When you receive a copy of your credit report, the first thing you should look at is your credit score. This typically will be the first section on a credit report below your name and address. There are 3 credit bureaus: Equifax, Transunion, and Experian. In the mortgage industry, we will pull all three credit scores, and use the middle of the three. For example, if the scores are 720, 759, and 718, we will use the score of 720 for credit approval.

SCORE MODELS

EQUIFAX/FACTA BEACON 5.0 – JANE DOE -123-45-6789

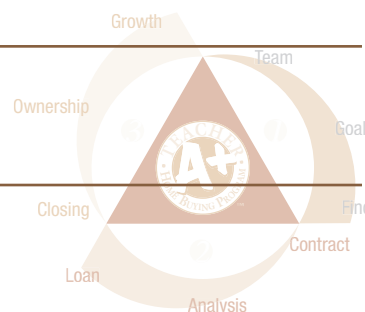
SCORE: 720

TRANSUNION/FICO CLASSIC (98) – JANE DOE – 123-45-6789

SCORE: 759

EXPERIAN/FAIR, ISAAC (VER. 2) – JANE DOE – 123-45-6789

SCORE: 718





The next section you should look at is your list of tradelines. This section is the main body of your credit report and is a list of all the credit you have to your name. The accounts that are currently open will be listed first, followed by older and closed accounts. Look at the headers first to determine exactly what you are looking at.

In the example below, you can see that the first account is Chevy Chase Federal Savings Bank. The account number is listed below the name, and it tells you that it's a real estate loan. Going across, you can see that the mortgage last reported in June 2008, it was first opened in October 2005, the original balance or the "credit limit" is \$225,000, the current balance owed is \$224,150, and there have been no late payments since the account was opened. On the second line, you see "DLA" or date last active. This indicates that the last time it reported was May of 2008. The account type is a mortgage, and the term is the monthly payment of \$1075. The "xp/tu/ef" indicates that this account reports to all three credit bureaus.

The "J" to the left of the account name indicates that this is a joint account. "B" would be for borrower, and "C" would be for co-borrower.

TRADELINES

E C O A	CREDITOR	DATE REPORTED	DATE OPENED	HIGH CREDIT OR LIMIT	BALANCE	PAST DUE	MO REV	30	60	90+	STATUS
			DLA	ACCT TYPE	TERMS						TERMS
J	CHEVY CHASE FED SAV 0123456789 CONVENTIONAL REAL ESTATE LOAN	06/08	10/05 05/08	\$225000 MTG	\$224150 \$1075	\$0	31	0	0	0	AS AGREED XP/TU/EF

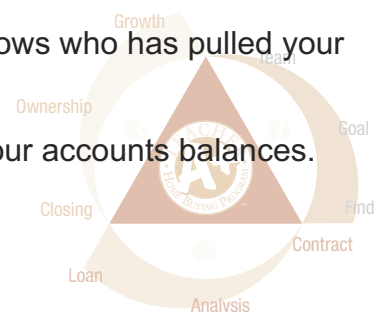
Below the section on tradelines, you will find Public Records. This section will show information such as bankruptcy, judgments, and liens. In the example below, the borrower filed chapter 7 bankruptcy with the California Federal Court in August of 2001. It was discharged in November of 2001.

PUBLIC RECORDS

J	J	CALIFFEDRLCT Docket #: 0123456 Source: XP/TU/EF	File Date: Amount: Status Date:	08/01 \$0 11/01	Plaintiff: Action Type: Status:	MR. LAWYER CHAPTER 7 BANKRUPTCY DISCHARGED
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Following the public records section, you will find "inquiries" which shows who has pulled your credit report in the last 90 days.

There is also a "trade summary" section which is a quick look at all your accounts balances. Below you can see that your credit is broken out into categories:





TRADE SUMMARY

#	BALANCE	HIGH CREDIT	PAYMENTS	PAST DUE
MORTGAGE	11	360887	362150	0
AUTO	1	17593	17809	0
EDUCATION	2	0	0	0
OPEN	4	322	18500	0
REVOLVING	47	72897	295510	0
TOTAL	67	451699	693969	0
SECURED DEBT	378480	OLDEST TRADELINE	10/90	
UNSECURED DEBT	73219	DEBT/HIGH CREDIT	65%	

The last thing you will usually see is the “creditors” section. This is a list with addresses and phone numbers of all your creditors, old and new. This is very helpful if you ever want to dispute something or contact a creditor.

There are many different credit vendors out there, and while each report may look a little different, they generally all contain the same information. Understanding your credit report is an important step to being a smart consumer.

