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Real Estate 411: March 2009

CREDIT for Home Buyers and Home Sellers



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## Real Estate 411 – FACTS

To access the complete information on this month's "411" visit:  
[www.DallasRealEstate411.com](http://www.DallasRealEstate411.com).

### QUICK FACT #1: 1956 was a year for credit

**What in the world is FICO?** "FICO" is the acronym for *Fair Isaac Corporation*. Founded in 1956 by engineer Bill Fair and mathematician Earl Isaac, Fair Isaac Corporation provides consulting services and enterprise decision management systems. They developed the FICO scores, a measure of credit risk, which are the most used credit scores in the world. FICO scores are available through all of the major consumer reporting agencies in the United States and Canada and is a publicly-traded corporation under the symbol "FIC". The FICO score is calculated statistically, with information from a consumer's credit files. The FICO score is primarily used in credit decisions made by banks and other providers of secured and unsecured credit. Banks and other institutions using such scores as a factor in their lending decisions may deny credit, charge higher interest rates, demand more collateral, or require extensive income and asset verification if the applicant's FICO credit score is low.

### QUICK FACT #2: So what's the BIG deal?

**You can SAVE \$\$\$ with a higher credit score.** Ever wonder why you can go online and be approved for credit within 60 seconds? Or get prequalified for a car without anyone even asking you how much money you make? Or why you get one interest rate on loans, while your neighbor gets another?

**The answer is credit scoring.**

Your credit score is a number generated by a mathematical algorithm -- a formula -- based on information in your credit report, compared to information on tens of millions of other people. The resulting number is a highly accurate prediction of how likely you are to pay your bills.

If it sounds arcane and unimportant, you couldn't be more wrong. Credit scores are used extensively, and if you've gotten a mortgage, a car loan, a credit card or auto insurance, the rate you received was directly related to your credit score. The higher the number, the better you look to lenders. People with the highest scores get the lowest interest rates.

**Here's the big deal . . .**

Your credit score will determine if you get credit at all, and the interest rate on that credit, says Ed Ojdana, president of Experian Consumer Direct, part of Experian, the largest of the three major credit-reporting agencies. "The better the score, the lower the interest rate and that can save you a ton of money."

The difference in the interest rates offered to a person with a score of 520 and a person with a 720 score is 3.45 percentage points, according to Fair Isaac's Web site. On a \$100,000, 30-year mortgage, that difference would cost more than \$85,000 extra in interest charges, according to Bankrate.com's mortgage calculator. The difference in the monthly payment alone would be about \$235.

CREDIT for  
Home Buyers and Home  
Sellers

## 2-Minute 411 with Jim Fite

### Managing CREDIT: Old-school wisdom

Getting into major debt can mean big trouble AND prevent you from being able to buy the home of your dreams. The task is learning how to effectively manage your finances and credit score. Here are 10 tips to keep your spending "in check" and keep you away from credit-disaster:

1. Put a portion of each paycheck into a savings vehicle
2. Pay your credit card balance each month, or double the minimum payment
3. Do NOT use your credit cards for things you can buy with cash, such as groceries
4. Watch closely that you are not using increasing amounts of your total income to pay off debts
5. Two or three major credit cards is MORE than enough
6. Make sure you decrease your credit card balance each month, not increase it
7. Do NOT let your credit card balance stay at the credit limit on your credit cards
8. Don't FLOAT your checks, have the money in the bank to cover it when you write it
9. Know and be aware of the total amount you owe on all your debts.
10. Do NOT take out cash advances on your credit card to pay other bills

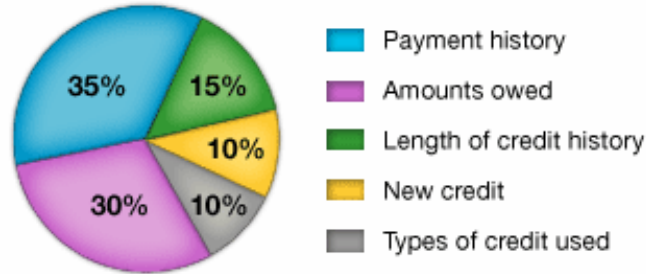
We live in a credit driven society, but don't let credit DRIVE YOU! The secret to successful credit scores is to use credit wisely and within your means, pay on time and make smart financial decisions.



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### QUICK FACT #3: 5 factors determine your credit score

FICO Scores are calculated from a lot of different credit data in your credit report. This data can be grouped into five categories as outlined below. The percentages in the chart reflect how important each of the categories is in determining your FICO score.



These percentages are based on the importance of the five categories for the general population. For particular groups - for example, people who have not been using credit long - the importance of these categories may be somewhat different.

## Real Estate 411 – TIPS

### It's a credit driven society we live in, but don't let CREDIT drive YOU!

*The first step in managing your credit is to know what your credit report says about you.*

#### QUICK TIP #1: It's not ERROR free

**Find, look at, double check, and MONITOR your credit reports.** Obtaining copies of your credit reports is easy. The 2003 Fair and Accurate Credit Transactions Act guarantees everyone one free credit report from each of the main credit reporting agencies. You must request your free credit reports through a centralized source. To order online, visit [www.annualcreditreport.com](http://www.annualcreditreport.com). By phone, call (877) 322-8228. Or you may request it via US Mail by writing: Annual Credit Report Request Service, P.O. Box 105283, Atlanta, GA, 30348-5283.

**NOTE:** If you are about to apply for a home mortgage, it's important to give yourself time to correct mistakes or make good on delinquent accounts. You should **check your credit at least three to six months before you apply for a mortgage**. Make sure the following information is correct:

- Your name or names, if you are or were married
- Social Security number
- Date of birth
- Addresses of places you've lived
- Names of places you've worked
- Pending accounts and accounts that have been closed
- Records of delinquent payments or other problems (i.e., make sure they're not mistakes)

#### QUICK TIP #2: Get in the Driver's Seat

**Tips for improving your credit scores.** Credit scores, along with your overall income and debt, are big factors in determining whether you'll qualify for a mortgage loan and what your loan terms will be. So, take the driver's seat and keep your credit score high by doing the following:

- **Monitor your credit report** and dispute errors. Errors in your report will usually translate into a low score. (See information above on Tip #1 on how to dispute errors.)
- **Pay your bills on time** even if it means you can only pay the minimum amount due.
- **Low balances** are a positive factor in scoring models. Don't use all your available credit.
- **New credit** applications can detract from your score. Even an application for a department store card can lower your score. Multiple applications can have a devastating effect on your

We are spreading the word that “Real Estate is GREAT! at CENTURY 21 Judge Fite Company”. There is real estate to be bought and sold in the Dallas/Fort Worth Metroplex and we are doing it! Join us in spreading the word that real estate really is GREAT here in our market.

Each month we will deliver a new Real Estate 411 that will give you INFORMATION you need to know. REAL ESTATE 411 will deliver GOOD NEWS about what is happening here at CENTURY 21 Judge Fite Company and in our local real estate market.... For March we are looking at CREDIT and how it affects the home buyer and the home seller.

score, especially around the time you are applying for a mortgage. So wait to charge that new fridge or furniture until after the loan is approved.

- **Old accounts** (even those you haven't used for a long time) can help your score. Scoring models look at not just how to use credit today but also how long you have used credit.
- **Consolidating balances** or moving debt around may make for one easy payment, but this can have an adverse effect on your score. Shuffling of balances could be especially harmful to your score if you close established accounts and open new accounts to consolidate your debt.
- **Know the going interest rates.** Current rates for mortgages, car loans, and other consumer credit are published in daily newspapers or can be found online at such sites as [www.bankrate.com](http://www.bankrate.com). If you have a good credit score but are not offered a good interest rate, ask questions, negotiate, or shop elsewhere.
- **Wait 12 months after credit difficulties to apply for a mortgage. You're penalized less for problems after a year.**
- **Shop for mortgage rates all at once.** Too many credit applications can lower your score, but multiple inquiries from the same type of lender are counted as one inquiry if submitted over a short period of time.
- **Avoid finance companies.** Even if you pay the loan on time, the interest is high and it will probably be considered a sign of poor credit management.

### **QUICK TIP #3: Talk their language**

**Know the credit-scoring lingo.** Credit will always be a driving factor in real estate transactions. For the home buyer, you need good credit to purchase a home, and for the home seller, you need good credit to relocate and purchase another dwelling. To help you manage your credit reports and scoring, we are offering a FREE list of 25 “need-to-know” credit-scoring terms that are commonly used in the financial industry. To obtain your free list, visit [www.DallasRealEstate411.com](http://www.DallasRealEstate411.com) and click on “Know the Lingo” link on the left hand navigation pane.

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*\*Sources: wikipedia.com; Bankrate.com – Pat Curry; Myfico.com; The Fair Credit Reporting Act; Fannie Mae Foundation; NAR and homebuyingguide.org.*

To find a real estate professional or mortgage counselor who can help you address your credit issues, contact

**[www.C21JudgeFite.com](http://www.C21JudgeFite.com)**

**800-451-8055 or email [411@judgefite.com](mailto:411@judgefite.com).**

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