

THE TOP 10 CREDIT DO'S & DON'TS DURING THE LOAN PROCESS



Keep in mind the actual lender will pull their own credit report at closing, and if your credit scores have dropped, you may no longer qualify for the rate that was underwritten and the final approval may come back with a higher rate. Unfortunately, all lenders qualify you by your credit score as to which criteria you fit and every loan has different criteria attached. The loan to value, the debt to ratio and so on etc. This is what borrowers do not understand, and they think the loan officer is baiting and switching. They are not. If an issue comes up that the lender decides you do not qualify for a certain loan, the only thing a loan officer can do is shop for lenders and see if any are willing to give the rate and program they thought you qualified for. If you have good credit and know your score, the loan officer can give you an idea what he or she can offer based on what you say. But do not expect them to stand by their quote if and when they pull your credit your scores have dropped.

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

- 1. 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 for one hard inquiry.
- 2. 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, do it through escrow, and make sure that 1) you validate that the debt is yours, and 2) that the creditor agrees to give you a letter of deletion.
- 3. DON'T CLOSE CREDIT CARD ACCOUNTS.** If you close a credit card account it will appear to the FICO 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 have to close a credit card account, do it after closing, and make sure it is a more recent account.
- 4. 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.
- 5. 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.
- 6. 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.
- 7. 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.
- 8. DO STAY CURRENT ON EXISTING ACCOUNTS.** Like your mortgage and car payments. One 30-day late can cost you anywhere from 30-75.
- 9. 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.
- 10. 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 broker may be able to supply you with the resources you need to stop any derogatory reporting to the bureaus.

