

# The Doorway to Good Credit

TURNING THE KEY TO A STRONG CREDIT SCORE  
AND A MORTGAGE TO BUY YOUR HOME

A Good Credit Record Takes you Across  
the Threshold to Homeownership

If you're planning to look for and buy a home any time soon, your real estate agent will recommend that you look carefully at your credit record to assist you through the financing process when buying your home.

*Your credit record demonstrates how well you have handled credit in the past and how you use it right now. Your credit record is kept electronically by three private companies, also known as national credit repositories: Equifax, Experian and Trans Union.*

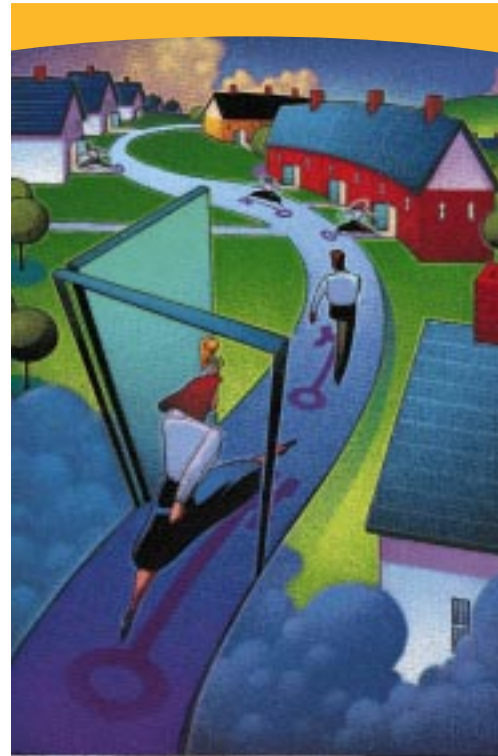
*A credit report is a listing of the information in your credit record at any one of these companies. It lists your debts and payment history with people and companies who have loaned you money under an arrangement to pay it back, such as banks, credit card companies and department stores. It shows when you pay your bills (whether you pay bills on time) and how much you pay (whether you pay the proper amounts due). Your credit report also shows any history of tax liens or bankruptcies, even if any of these happened several years ago.*

*It is important to understand how significant your credit record is to getting a mortgage loan to buy your home. One of the first things you should do when you begin to search for a home is to order a copy of each of your credit reports and review them carefully. (To find out how you can get copies of your credit reports, turn to the last two pages of this booklet.) A real estate agent who is a REALTOR® is ready to work with you throughout the homebuying process—from helping you obtain and review your credit reports to providing helpful hints on qualifying for a mortgage—so you'll be ready to buy the home you select.*

*When you're finally ready to apply for a home loan, the lender you choose often gets a credit score as part of your credit report. A credit score is a computer-generated number that provides a snapshot of how likely you are to repay your debts.*

*A credit score is calculated by analyzing all the pieces of information in your credit record and summarizing them in a number. Your credit score is important! It will be used—along with your credit report and other information from your loan application—to determine whether you will get the financing to buy your home. Your credit score also may be used to determine the interest rate you get on your mortgage.*

*Pay attention to your credit and keep it on the right track. A good credit record will give you a strong credit score. And that's good news when you go out with either an agent who is a REALTOR® or a real estate agent to buy a home.*



# Opening the Front Door

TO HOMEOWNERSHIP

## More about Credit Scores and Getting a Home Loan

A credit score is a statistical way of predicting how likely it is that you will pay back a loan that might be made to you.

The most commonly used credit score today is known as a FICO<sup>SM</sup> score. Developed by Fair, Isaac & Co. Inc., the FICO score is a mathematical way to look at factors in your credit record that may affect your ability and willingness to repay a debt.

These factors can include your record of repaying loans, e.g., student loans, car loans and credit card bills; any public records you might have, like tax liens and bankruptcies; how often you apply for installment loans and new credit cards; and how much you actually owe. For example, if you charge up to the limit on your credit cards—even if combined they don't seem to add up to a lot of money—this might hurt your credit score. Or, if you have recently applied for several credit cards, including department store payment plans, bank credit cards or finance company accounts—even if you haven't begun to use them yet—your credit score might be affected negatively. However, if you show a pattern of managing your credit wisely, such as keeping credit card balances low or paying your bills on time consistently, your credit score will be affected positively.

Your lender looks at other information besides your credit score before deciding whether to make you a home loan. Lenders look at

- Employment history, including whether you are self-employed
- Monthly debt payments versus your current income
- Savings patterns and amount of savings
- The type of loan you want
- The value of the property you want to buy or refinance
- The amount of the down payment you plan to make or the equity that you have in your home already

All of these factors combined together make up your “loan application” profile.

After collecting this information, the lender evaluates it to decide whether to approve the home loan. Until recently, this was done manually by reviewing each piece of information separately. Today, many lenders use automated underwriting, a computer-based process that evaluates the information easily, objectively and within minutes.

The lender then views the electronic recommendation along with other information gathered to create a full picture of your loan application and makes a final decision about your ability and willingness to repay your loan.

Credit scores and automated underwriting are widely used today because they speed up the mortgage approval process for consumers. What's more, by using credit scores, mortgage lenders treat each person objectively because the same standards apply to everyone. Credit scores assess each factor equally for every consumer, every time. They do not include race, religion, national origin, gender or marital status as factors. Credit scores are blind to demographic or cultural differences among people.

Step up to the front door and be smart about your credit.

Follow these three rules of thumb to learn how to manage your credit wisely.





# 1 The Front Door

## Pay Your Bills on Time!

This is the single most important thing you can do.

How you've paid your bills in the past is usually the best indicator of how you'll pay in the future. Be sure to pay at least the minimum amount required by the date it is due on your account statement or invoice. You can always pay more, but you should never pay less than the minimum. Remember—being late on a payment is a negative mark on your credit record, even if you make up the payments later.

If you don't pay your bills on time, you can start today! Credit scores emphasize your most recent payment record.

# 2 The Side Door

## Keep Credit Card Balances Low

Don't apply for too many loans or too many credit cards. This might be interpreted as a sign that you can easily get in over your head on payments you owe. Don't charge as much as your credit limits allow you to charge. Think about closing down accounts you never use and try to keep credit card balances low on your remaining credit lines.

Remember, though, that it is good for you to use credit because it demonstrates your ability and willingness to pay your bills. You must have some credit history to have a credit score. If you rarely or never borrow money or use a credit card, consider applying for a few credit cards and using them carefully, paying off the debt each month. But keep your overall debt at a reasonable level relative to your income.



# 3 The Gateway

## Make Sure Your Credit Records are Accurate and Protect Them!

It's important that you review your credit reports from each of three private companies—Equifax, Experian and Trans Union—at least once a year to make sure they are right. Your credit record, and therefore, your credit report may vary from one company to the other. You don't want your credit score or mortgage application to be based on incorrect information in any of your reports. Simply contact all three companies that report on your credit—or national credit repositories as they are often called—listed below. If you've been denied credit, you can get your credit report for free by following instructions in the written notice you received denying you credit. Otherwise, you can receive a copy for a minimal fee.



Equifax  
Credit Information Services  
P.O. Box 740256  
Atlanta, GA 30374-0256  
Phone: 1 (800) 685-1111  
Web Site: [www.equifax.com](http://www.equifax.com)

Experian  
National Consumer Assistance Center  
P.O.Box 949  
Allen, TX 75013-0949  
Phone: 1 (800) 682-7654  
Web Site: [www.experian.com](http://www.experian.com)

Trans Union  
National Disclosure Center  
P.O. Box 390  
Springfield, PA 19064  
Phone: 1 (800) 888-4213  
Web Site: [www.tuc.com](http://www.tuc.com)

If you believe that any one of your credit reports contains mistakes and you wish to dispute or change the mistake, contact the national credit repository that developed the report. Under the Fair Credit Reporting Act (FCRA), the repository must complete an investigation of your disputed items within 30 days and provide you written notice of the results of the investigation within five days of its completion, including a copy of your credit report if it has changed based upon the dispute.

The Federal Trade Commission (FTC) is responsible for enforcing FCRA. The

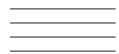
FTC also publishes consumer-related credit brochures where you can obtain additional information on credit reports. To contact the FTC, call or write:

Federal Trade Commission  
Public Reference Branch  
6th & Pennsylvania Avenue, N.W.  
Washington, D.C. 20850  
Phone: (202) 326-2222  
Web Sites: [www.ftc.gov/ftc/consumer.htm](http://www.ftc.gov/ftc/consumer.htm) and [www.ftc.gov/ftc/moreinfo.htm](http://www.ftc.gov/ftc/moreinfo.htm)

To learn more about credit scores, contact us at our address listed below.

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