



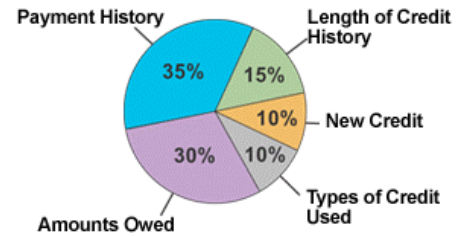
The Wrong Loan Can Cost **YOU** Your Home

CREDIT MYTHS!

- **MYTH:** It is impossible/takes forever to dispute information on my credit file. **FACT:** By law, the bureaus have only 30 days to complete an investigation on your credit file – all you have to do is request it!
- **MYTH:** My bad credit will haunt me forever. **FACT:** By law, negative information can only stay on your credit file for seven years (bankruptcies for 10 years). Also, the past 24 months are the most sensitive – older negative info will hurt your score less than more recent information.
- **MYTH:** It doesn't matter when I pay a collection, because as soon as I pay it, it will be removed from my credit report. **FACT:** It's best to pay a collection as soon as you're aware of it. If you wait to pay a collection, the date will remain current affecting your score more severely. Also, paying it does not remove it – it will remain on your file as a paid collection, which is still a derogatory item.
- **MYTH:** My score will drop if I apply for new credit (inquiries). **FACT:** Inquiries are a very minimal part of your score calculation. Also, multiple inquiries from mortgage or auto lenders within a short period of time are typically treated as a single inquiry.
- **MYTH:** It doesn't matter how high my credit card balances are, as long as I make my payments on time. **FACT:** Maxed-out credit cards are viewed as a negative item. Try to keep balances at or below 30% of your available credit.
- **MYTH:** It's a good idea to open up an account if I'm offered a discount at the store or 0% interest for a few years. **FACT:** Opening up a new account through a finance company has a negative impact on your score. On top of this, it will likely be reported as a maxed-out revolving account – another negative factor!
- **MYTH:** I should close out old accounts that I don't really use anymore. **FACT:** Those old accounts show nice long payment histories and add positively to your credit. Your score is based on both positive and negative credit. Keep them open and use them every six months or so just to keep them active.
- **MYTH:** If I cosign on a loan, it won't affect my credit. **FACT:** By cosigning, you are signing on as a responsible party for that loan. It will affect your credit!
- **MYTH:** Lenders will judge me based on my credit score alone. **FACT:** While a credit score is an important factor, lenders also look at factors such as your debt, income and employment history.
- **MYTH:** If I dispute my information with one bureau, they will send the updated info to the other two. **FACT:** The bureaus don't share information, so it's up to you to contact all three bureaus.

For assistance and referrals, or more information on Don't Borrow Trouble Silicon Valley, please contact 408- 283-1284, or www.sjhousing.org

WHAT IS CREDIT SCORING?



⇒ Payment History (35% of the credit score's weight)

- 1) The fewer lates, judgments, liens or collections, the better.
- 2) Recent derogatory items are more indicative of future default than those that occurred more than 24 months ago.
- 3) The severity of a delinquency (how far past due) will impact the score.

⇒ Amounts Owed (30% of the credit score's weight)

- 1) Low balances on several credit cards are better than high balances on a few cards. Balances on your cards should be kept below 50% of the credit limit. Keep balances as close to zero as possible for optimal score.
- 2) Too few or too many credit cards can be detrimental. **WARNING: DO NOT CLOSE ANY OF YOUR ACCOUNTS WITHOUT FIRST DISCUSSING YOUR COMPLETE CREDIT PROFILE WITH YOUR MORTGAGE PROFESSIONAL. YOUR SCORE COULD GO DOWN!!**

⇒ Length of Credit History (15% of the credit score's weight)

- 1) The longer accounts have been opened, the lower the risk indications are about you.
- 2) Opening new accounts and closing your seasoned accounts will negatively impact your score. AVOID "credit surfing."
- 3) There must be accounts with recent activity in order to get a credit score.

⇒ Types of Credit in Use (10% of the credit score's weight)

- 1) Finance company accounts will score lower than the accounts you secure through banks or department stores. *(Appears that you could not qualify for a better type of credit)*
- 2) "90 days same as cash" and deferred payments generally are funded by finance companies.

⇒ New Credit (10% of the credit score's weight)

- 1) Looking for new credit can indicate higher risk...
- 2) Multiple inquiries, regardless of the number, for mortgages, in a 14-day period of time, only have the impact of a single inquiry.
- 3) Promotional or administrative inquiries shown on your consumer credit report DO NOT adversely impact your score. Only authorized inquiries will impact your score.

WHAT DATA DO SCORES CONSIDER?

Scoring Models DO NOT Consider - Race, gender, religion, marital status, income, nationality, neighborhood, employment history, position or title, sexual preference, or interest rate being charged on a particular card.

Scoring Models DO Include - ALL the credit information stored in the repository's credit file on you at the time of the request, NOT just the negative credit information.

HOW DOES CREDIT SCORING HELP YOU?

Credit scoring is not a crystal ball, but it offers real benefits to both lenders and consumers:

- 1) People get loans faster – Scores are delivered instantly and credit decisions are sometimes made within minutes.
- 2) Credit decisions are fairer – Scores are completely objective. They can't consider factors such as gender and race.
- 3) Scoring speeds up credit decisions. Lenders can make decisions more rapidly, and often with less documentation.
- 4) Credit mistakes can't last forever. With scoring, past credit problems count against you much less.
- 5) Scoring helps make more credit available. Lenders using scoring can approve more loans and offer a wider variety of options based on risk level.



Information provided by: