

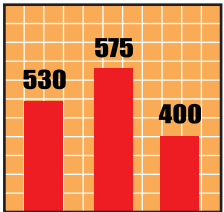
VALLEY BAY MORTGAGE

JUNE 2004

NEWSLETTER

You probably know that credit scores determine whether you can get a loan. But did you know they also affect the rates you can get on mortgages? According to Fair Isaac, the difference in mortgage interest rates offered to a person with a 520 score vs. a person with a 720 score is 3.45 percentage points. Knowing how credit scores work and how to improve yours can translate into a difference of hundreds, even thousands, of dollars in interest annually.

How Credit Scores Work



Credit scores are based on statistical models that interpret the information in your credit report. Scores are given by all three major credit reporting bureaus (Equifax, Experian, TransUnion) and usually fall between 300 and 850. Because each bureau has its own credit scoring model (Beacon, Fair Isaac (FICO), and Empirica, respectively), you actually have 3 credit scores. Credit scores are constantly revised and can change monthly depending on whether new negative information appears on your report or if old negative information falls off the report.

According to Fair Isaac, the leading credit score provider, there are many factors that go into determining your credit score (in order of importance):

- **How You Pay Your Bills**

Do you consistently pay your bills on time, or do you have a history of late payments? Have you gone to collection? Have you declared bankruptcy?

- **Amount You Owe Compared to Available Credit**

Are all your credit cards close to the max? Having \$10,000 in debt can mean different things; e.g., having one card with a \$10,000 limit and \$10,000 balance is viewed differently than having five cards with \$10,000 limits and \$2000 balances on each.

- **Length of Credit History**

The longer you've had credit, the more points you get. Closing old, unused accounts will not improve your credit score.

- **Mix of Credit**

Having a mix of credit card, mortgage, car and installment debts is viewed more favorably than having just one or two types of credit.

- **New Credit Applications**

When you apply for new credit, the lender will pull your credit report. This is called a "hard pull," which differs from a "soft pull" where you order your own credit report of when a lender decides to send you an unsolicited pre-approved credit offer. Hard pulls negatively affect your credit score with one notable exception; hard pulls by mortgage lenders will not affect your credit score if made within a single 30-day period.

Improving Credit Scores

The first step in improving your credit scores is to get a copy of your credit report. Most credit reports do not automatically list your credit scores, so be sure to order a report that provides credit scores from all 3 bureaus. One good resource for credit reports is www.truecredit.com, a site offered by TransUnion.

Scores of 720 and higher will get you the most favorable rates for mortgages. If your scores need improvement, first go through your credit report carefully. Note any accounts that do not belong to you or incorrect information and contact the bureaus to dispute the accounts. It can take 30-90 days to correct errors, so be patient.

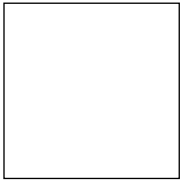
Paying down your credit card debt is another way to improve your scores. Keep the ratio between your balances and available credit on each card as low as possible. Also, avoid applying for unnecessary credit. An offer of 10% off your purchase when you apply for a store credit card might sound tempting, but that application will count as a hard pull and bring down your scores.

Finally and most importantly – pay all your bills on time. Set up automatic payments whenever possible; even a single late payment can mean the difference between getting a great rate and getting an OK rate.

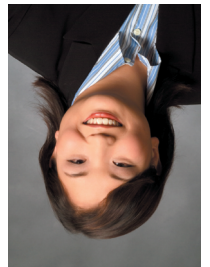
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This Month's Valley Bay Mortgage Newsletter: Improving Credit Scores



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Resources for Credit Scoring Information

To find out more about credit scoring and ways to improve your credit, visit:

<http://www.myfico.com>

<http://www.truecredit.com>

<http://consumers.creditnet.com>

Credit Repair by Robin Leonard and Deanne Loonin, Nolo Press (2002)

Call or Email for More Information

If you are thinking about pulling equity from your home or buying a new home, please call or email us. We'll be happy to provide you with free, detailed quotes that will help you shop for the best rates and programs.

We're more than just mortgage brokers – we're committed to helping improve your family's financial outlook. Give us a call.

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