

MORTGAGE MATTERS

Financial Issues for Today's Homeowner

WHAT IS YOUR CREDIT SCORE?

When applying for financing, credit scoring is used to rate a borrower's credit worthiness and their ability to repay loans. A credit score is a quantitative measure that lenders feel will indicate how likely you are to pay on a loan or credit card as agreed. The way you have historically handled credit has a strong link to how you probably will handle credit in the future. "Probably" is the operative word. Credit scores can not predict with certainty how you or anyone else will act. But they do provide a quick, accurate and objective estimate on how likely you are to repay according to the loan terms.

Information about your credit experience, such as bill-paying history, the number/type of accounts, late payments, collection actions, outstanding debt, and the age of your accounts, is collected from the credit report. Using a statistical program, this information is compared with that of similar consumers. A credit scoring system awards points for each factor that helps predict who is most likely to repay a debt. Lenders use credit scores to help make fast, unbiased decisions on which applicants are likely to pay them back, and pay them back on time. Scores range from about 300 to 900; the higher the number, the better the score. Lenders are more likely to issue favorable terms to customers with higher scores.

Although some think such a system is arbitrary or impersonal, it helps make decisions faster, more accurately, and more impartially than individuals when properly designed. Because there are so many different risk scores with so many different purposes, it's hard to say with precision how to improve any specific risk score. In general, however, since a risk score is nothing more than a statistical summary of information in your credit report, increasing the "good" elements of your credit report and decreasing the "bad" elements are likely to improve your risk score.

For example, these behaviors are virtually certain to worsen your risk score:

- Consistently paying your bills late
- Declaring bankruptcy
- Owning a large amount of non-mortgage debt
- Carrying a large number of credit cards
- Applying for multiple credit cards or loans within a recent period of time

On the other hand, these behaviors are likely to improve your risk score:

- Consistently paying your bills on time
- Keeping overall debt at a reasonable level relative to your income
- Actively and responsibly using several credit cards

The key to improving your score is to consistently pay bills on time. Always remember that even though good credit helps to improve your chance of a mortgage approval, programs exist for all borrowers, even those with credit problems.



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BYE, BYE JUMBO

Fannie Mae and Freddie Mac, the two largest "secondary market" agencies, purchase loans from lenders. By law, they cannot buy mortgages that exceed a certain dollar amount. Loans that fit under the agency limits are called "conventional" or "conforming" mortgages, while those that do not are called jumbo loans. Due to this reduced marketability, Jumbo loans are more expensive to the borrower. Typically the interest rates on jumbo mortgages exceed conventional rates by a half a point.

In January 2001, the conforming loan limit increased to \$275,000 from the previous \$252,700. That is the largest annual increase in 12 years. If your current or existing mortgage amount is below \$275,000, but above \$252,700, cost savings may be available to you now that previously were not. Call me now to discuss refinancing due to the new conventional loan amounts as well as the decline in the overall level of interest rates.

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