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Rebuilding Credit: It's Not Too Late

It's true, negative credit items can remain on your credit report for up to 7 years (up to 10 years for public records, such as a bankruptcy, tax lien or judgment). But this doesn't mean that you have to wait 7 to 10 years to begin reestablishing a good credit rating. Because credit scoring models typically lend more weight to your recent activity than to the mistakes you've made in the past, you can change your habits right now and begin reestablishing yourself as a good credit risk for a purchase or refinance loan in just 6 to 12 months.

The following are a few Dos and Don'ts when it comes to rebuilding your credit:

1) Three months prior to securing your mortgage, DON'T apply for, close, or pay off any collections, charge-offs, loans, or other kinds of credit without speaking to your mortgage professional first. Any one of these actions, as innocent as they might seem, could seriously affect your credit score, adding significant costs to your mortgage should your score suddenly drop.

2) If you have any credit card accounts with excellent credit histories, DO use them - but use them strategically. Keep your balances below 30% of their limits for 3-6 months prior to entering into a loan transaction, and use them only for small purchases that you can easily pay off completely at the end of the month. Remember, creditors like to see evidence of stability, so the goal is to keep the good reports coming month to month without falling into the same financial traps that led to credit challenges in the past.

3) If you don't have a credit card, DO get a secured card immediately. This is a great way to rebuild or establish credit quickly. Because this account is secured by funds that you deposit (typically between \$100 and \$400) you're not seen as a great risk to the card issuer because of your initial investment. Again, use this card strategically to build a strong credit history. Pay your bill on time every month, and it won't be long before you qualify for an unsecured credit account.

For some, opening a credit account with a co-signer could be a better alternative, but it's important to note that both you and your co-signer are equally responsible for any activity on this type of account, good or bad, so this strategy could backfire in the end if you or your co-signer makes poor decisions. DON'T mistake "authorized user" for a co-signed account. While, in the past, becoming an authorized user on an account in good standing would benefit everyone on the account, the credit bureaus have reconsidered this practice, and new credit models have all but eliminated "piggybacking" your way to good credit.

Give us a call at your convenience. We'll be glad to help you in any way we can.

