



Credit, credit, credit.

Your credit score and credit profile are integral in real estate financing.

The world of real estate financing has and continues to become more and more standardized. This is really good news for most of us. It means the cost of financing is lower than it used to be whether we're buying our first home, refinancing or building a new house. But for some, this will not be the case. Act now to make sure you don't become one of the "some."

Unfortunately just promising that you'll make your payments it isn't enough when a lender is going to give you hundreds of thousands of dollars. Saying that you will make your payments as promised is nice, but every lender will require, among other things, evidence that you have been able to fulfill your financial obligations in the past. They do this by looking at your credit report and score.

There are two principal technologies that have contributed to the commoditization of real estate lending over the past ten years: automated underwriting systems and credit scoring. Many lenders today use either proprietary automated underwriting systems or rely on the automated underwriting systems of Fannie Mae or Freddie Mac. This is the principal process by which lenders are assisted in making an approval of your loan. That is, all of your information along with the specifics about the transaction, the property and the loan program are all processed through a software application to compare your information to



the lender's loan guidelines, as well as make a risk assessment of your loan. Your credit score and credit profile are used as an integral part of this process.

Credit scoring is a method of determining the likelihood that credit users will pay their bills. The predominant credit scoring system is FICO. A FICO score is the credit score developed by Fair Isaac & Co. thus the name. A credit score attempts to condense a borrower's credit history into a single number. For real estate lending, scores can range from 300 to 850. The median score for the US is approximately 680. If you're wondering, a higher score is better than a lower score.

There are a variety of things that can impact your credit score, including late payments, the amount of time credit has been established, the amount of credit used versus the amount of credit available, and so on. For more specific information, visit www.myfico.com.

As a general course of business, there are three common scenarios that Opes Advisors experiences with our clients. First is someone who believes they have very good credit scores (720+), and they do. Usually there are not any issues in their qualifying with respect to credit scores and history. This is where we all would want to be. Second are people who believe they have good credit scores, but they don't. Usually they either have a misconception of what score is sufficient to get real estate financing, or there is something that has happened to their credit profile and they don't know about it. Third is someone who knows they have some problem with their credit history and either they are correct, it is worse than they think, or their scores are significantly higher than they thought.



Recently we were working with a client for a construction loan. This client thought his scores were in the low 600's. After discussing why he thought this, we suggested we get an updated credit report. We knew enough from why his scores were low in the past to also know that they would most likely be higher now. Sure enough, his scores were above 700. For him this is the difference between his getting the financing he needs verses a significantly higher cost loan (or not being able to get the financing at all). In another instance this past year, we ran a credit report for a new client only to discover that she had become the victim of identity theft. We were able to help her in getting this fixed and she was able to buy her first home.

The moral of the story: Realtors tell you the three most important things about real estate are location, location, location; your mortgage advisor should tell you the three most important things about your real estate financing are credit, credit, credit. Your scores may not be what you think. Know what your scores are, work to correct them if there's an issue, and guard them if they are good. Lenders will rely more and more on your credit history and scores in qualifying and pricing your real estate financing. It's a lot of money. Be wise.