

Establish Good Credit

When reviewing a borrower's credit profile, the lender's primary concern is the ability of the borrower to make a housing payment on time.

Paying rent by cash is one of the the worst mistake a potential borrower could make. Cash is unverifiable, rent receipts can be fabricated, and landlords can stretch the truth to remove an unreliable tenant. **Always pay for rent with a check.** A money order is acceptable if you retain the receipts. Even if you are living with family, paying them rent by check is a very good idea. A lender will request 12 – 24 months cancelled rent checks.

You may want to obtain a secured credit card. These cards require you to prepay your credit limit. While these cards can help you show reestablished credit, many of the cards may charge you a lot to use your own money.

Be aware that some lenders may accept non-traditional credit such as your electric, phone and other utility bills, as well as Insurance payments or any other regular monthly bills. You may be required to show on-time payment with the check itself, both front and back.

Debt – To – Income Ratios

Many potential homeowners have the most trouble understanding Debt- To – Income ratios, or DTI. Your DTI is the relationship of your monthly debt payment to your income.

Traditional lending guidelines require that your debt payments, including a potential mortgage payment of principal, interest, taxes and insurance, not exceed 36% of your income. To calculate your DTI, add up all your monthly debt payments, (do not include your automobile insurance or utility and phone bills), then divide this total by your gross monthly income.

FNMA and FHLMC the government sponsored mortgage agencies have eased their guidelines on DTI for excellent credit borrowers allowing up to 45% DTI, but if your credit is less than perfect, they will require lower ratios. "B/C" lenders who specialize in lending to borrowers with less than "A", or excellent credit, will allow higher ratios, often up to 60%, but once again this type of lender requires a large down payment.

Lured by advertisements claiming "no money down, poor credit, or no credit", borrowers may be paying more for a mortgage than they should. By following the steps outlined in this brochure a potential homebuyer can minimize the cost of obtaining a mortgage, and better their chances of getting approved for a mortgage to buy the home of their dreams.

If you have any questions about the issues raised in this brochure please feel free to call Consumer Credit and Budget Counseling, Inc. to speak with our qualified counselors at no cost or obligation.



Consumer Credit is a HUD approved Housing Counseling Agency and advocates equal housing opportunities.



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Buying a Home with Credit Problems

Do not despair if you have had credit problems, as it may be possible to buy a home. Today's lenders are more understanding about credit problems.



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Who We Are

Consumer Credit and Budget Counseling is a non-profit consumer education and financial counseling agency that serves individuals and families in financial distress. CC&BC assists each client to structure his or her consumer debts, primarily credit cards, into a single affordable monthly payment scheduled over a term of 3-5 years.

Consumer Credit and Budget Counseling is not a lending institution. It is not a government entity. It is a licensed non-profit consumer credit counseling agency.

The debt counseling function of CC&BC's business involves a determination of the relationship between how much a client will be able to pay on a monthly basis, as related to the client's monthly income and expense budget, and the total consumer debt to be paid or serviced.

Consumer Credit and Budget Counseling's funding comes from a small monthly service fee which is part of the client's Debt Management Program. The majority of our funding comes from voluntary contributions from creditors who participate in our Debt Management Program. In this way our Debt Management Program serves a dual role of helping the client repay their debts and helping creditors receive the **money owed them**.

What We Do

Consumer Credit and Budget Counseling helps its clients develop a budget which allows them to not only meet essential living expenses but also to pay down consumer debts in three to five years.

We structure the Debt Management Program by negotiating with credit card companies, banks, finance organizations and other creditors to lower payments, lower interest rates and reduce or eliminate late or over-limit fees.

Buying a Home with Credit Problems

Do not despair if you have had credit problems, as it may be possible to buy a home. Today's lenders are more understanding about credit problems. FNMA and FHLMC the government sponsored mortgage agencies have eased their guidelines and are now allowing a borrower with a bankruptcy over 4 year old with reestablished credit to obtain a mortgage at conforming credit rates. An FHA (Federal Housing Administration) approved lender will accept certain credit problems, including no credit or limited poor credit, with a very small down payment. In addition, there are lenders called "B/C" lenders who specialize in lending to borrowers with less than "A", or excellent credit. They typically require a larger down payment.

Here are some steps you can take before you start shopping for a mortgage to buy the home for you and your family:

Check and Repair your Credit Profile

The first step in the home buying process should be to check and repair your own credit. Your credit is the first thing that a lender will look at to approve you for a loan, and it is best to know what your credit looks like so that you can explain or fix any problems which may crop up.

The three major credit reporting agencies will send you a copy of your credit report for a small fee, or for free if you have recently been denied credit. You should get all three because one may contain an error not found in the other two.

The phone numbers are:

Equifax 800-685-1111

Experian 888-397-3742

Trans Union 800-888-4213

Then start paying off any small collections or chargeoffs, and begin paying off the big items that may stand in your way. You can pay them off yourself or call **Consumer Credit and Budget Counseling** to assist you in setting up a debt repayment plan. Correct any mistakes that may appear.

Under the Fair Credit Reporting Act, the credit reporting agencies must remove any disputed credit item within 30 days, unless the reporting creditor can prove you actually owe the debt, as reported. Remember when deciding whom to pay off first: mortgage lenders may be more forgiving of medical collections than other credit problems.

Begin Saving for a Down Payment and Closing Costs

Buying a house is not cheap. The closing costs alone can amount to \$5,000. The down payment can be as little as 3½% up to 35% depending on the type of loan applied for and your credit history. You can write seller concessions on closing costs into a sales contract, or even a seller second mortgage, but most lenders require borrower contributions to obtain a loan.

Saving is very difficult without a plan and a commitment to save. Start with your budget. Are there any savings that can be realized by changing your life style or your spending habits? Savings of as little as \$50.00 per week can amount to over \$2,600 in a year, (3 ½% of a \$74,000.00 home!). Payroll savings plans can be one of the best ways to save, as you can fool yourself into thinking the money is not available.