

Compliments of David Bailey

Financial *focus*

Why Your Credit is Your Greatest Asset

For most of us your home is the biggest purchase you'll ever make...especially in these days of escalating home prices. This means that your house becomes your greatest asset. Unfortunately, many home buyers don't stop to consider the thousands of dollars they may throw away by not keeping their finances in order. In fact your true greatest asset is actually your credit.

"How can this be?" you may wonder. There are hundreds of ads offering mortgage loans to people with poor or less than perfect credit. Recent bankruptcy...no problem, you can still buy that dream home. What these invitations don't say is how much these risky loans will in fact cost. Yes, you may qualify and be approved for a mortgage, but it may be years before you build up equity in your property.

What is a Credit Score?

There are three main credit reporting agencies; Equifax, Trans Union, and Experian. Creditors report any activity on your accounts to these agencies. Your credit report shows how much you owe and to whom, as well as whether or not you make your payments in a timely manner.

Each agency in turn uses a formula to determine your credit rating, known as a credit score. Higher scores indicate better credit than a lower one. For the time being at least, no one knows how the agencies compute the scores and they aren't telling. That means your score will actually vary between agencies. There has been recent talk of switching to a uniform equation and possibly even sharing it with consumers.

In the meantime the Federal Trade Commission (FTC) now requires that each agency provide a free copy of a credit report to everyone requesting it once a year. Usually, however, they charge you a fee to see your credit score. Whether you choose to pay for the privilege or not, you should examine each of your reports annually to check for errors. You just never know what a third person is saying about your spending activities. Not only that, but identity theft is rampant and you can quickly determine if someone else is charging items to your accounts, or even opening new ones without your knowledge.

www.AnnualCreditReport.com



Compliments of:

David F. Bailey

Branch Manager / NMLS #658734

Residential Mortgage Loan Originator

o. 817-527-2936

c. 214-682-9175

e. d Bailey@westloan.com

www.WeststarMortgageTeam.com

1450 Hughes Rd., Ste. 220, Grapevine, TX 76051



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Accuracy Counts

Here are the main things to check for accuracy on each of your credit reports:

- **Is your social security number correct?**
This is mainly how you are identified, so it is important that it is correct.
- **Is your name spelled correctly and is the right address listed?** If you've moved within two years, your former address should also be on the report
- **Does it show your employer and job title correctly?** Again if you've worked there less than two years, your previous position should be listed
- **Is your phone number correct?**
- **Are there payments you've made on time that show as late or not at all?** If so, contact the credit reporting agency, tell them about the discrepancy and find out how to send proof to correct it.
- **Some creditors only report to one or two bureaus.** If you want the information of your good standing to show on all three, you can either ask your creditor to include them or send the missing agency copies of your up-to-date statements.

This may seem like a hassle, but if you apply for a mortgage only to be turned down for invalid reasons, you'll realize why it is so important to stay current with your credit reports.

In fact, if you're even thinking about buying a home, it would be a good idea to review all three reports beforehand. Sometimes it can take several months to get errors corrected.

The old adage about "better to be safe than sorry" really applies here. What if you lost your dream home over a foolish mistake on someone else's part? You'd be heartbroken and doubly so since it didn't have to happen that way.

Building Credit

Everyone has to start a credit record somewhere. Those that got off on the wrong foot and have poor credit need to re-establish it. Even if you've gone as far as to file for bankruptcy, you have the opportunity to bounce back and rebuild your greatest asset.

Here are ways to build a positive credit record:

- **Pay everything on time.** This includes rent and utilities. Even if these creditors don't report to the credit agencies, you can give proof of your good record to potential lenders.
- **Establish checking and savings accounts.** Never overdraw these accounts and deposit a regular amount in savings each month, even if it's small.
- **Apply for a small loan.**
You may have to deposit the amount you borrow to secure the loan, but paying it off will establish credibility. While this may seem odd to deposit the same amount you are borrowing, it is a good way to establish another credit line.
- **Apply for a credit card.** You may need to secure the card as you did the loan, but showing that you can buy items on credit and pay for them on time is the pattern you wish to establish. Never charge more than you can pay for in each billing cycle.

If you purchase something that will take more than a month to pay off, don't max out the card. For example if you have a \$1000 limit, buy something that costs \$300 or less and pay for it as soon as possible. Potential

creditors frown on people who continually stay close to their limits.

- **If you're approved for one or two cards, don't apply for more.** You don't need a handful to establish good credit, and you may only be tempted to dig yourself into a hole by losing track of how much you're charging.

All of these tips are pretty much common sense. It's sad to note however, that many Americans grow up with no clue as to how to handle their financial lives, and credit in particular.

Money management should be included in scholastic programs and home education. Until it is, you need to educate yourself.

Why Good Credit is Your Greatest Asset

The simple truth is that good credit saves money. People that save, spend wisely, and use credit sensibly are rewarded with lower interest rates and greater opportunities to borrow money and use credit cards.

As mentioned earlier, when it comes to buying your home, the difference you pay for your loan could amount to thousands of dollars.

Too many people concentrate on how much they pay each month for their house, car, or other major purchases. What they should look at instead is how much the loan is costing them over its lifetime.

Wouldn't you rather pay \$25,000 for a mortgage than \$75,000? Make it your new habit, if you don't already do it, to calculate how much each credit card or installment loan is really costing you. Once you start, you'll be excited to learn how much you can save by using smart financial practices.

Make it your goal to ensure that your credit truly is your greatest asset. There isn't a better win-win situation in which to find yourself.