The Return of Better Credit

As 'boomerang buyers' re-enter the market, you can help give their bid a boost

By Alisa Glutz

When the real estate market crashed in 2008, homebuyers across the United States were impacted. Not only did their mortgages go underwater, but so did their credit scores. Their purchasing power was reduced to next to nothing, and many buyers couldn't imagine a way out of this predicament.

Fortunately, time helps heal all wounds, particularly when it comes to credit. Many of these previous homebuyers are now seeing their credit scores rise and may be ready to enter the housing market once again. Before that can happen, however, these buyers could use the help of an experienced broker to make sure their credit is as clean as possible — that's where you come in.

It has been seven years since the 2008 crash. That timing is vital, as the majority of negative credit falls off a person's credit report seven years from the last late payment. Many people affected by the crash have been focusing on getting their work life more stable, so credit has not been a concern.

These consumers are known as "boomerang buyers" because, after getting their credit burned during the 2008 crash, they are now ready to re-enter the housing market.

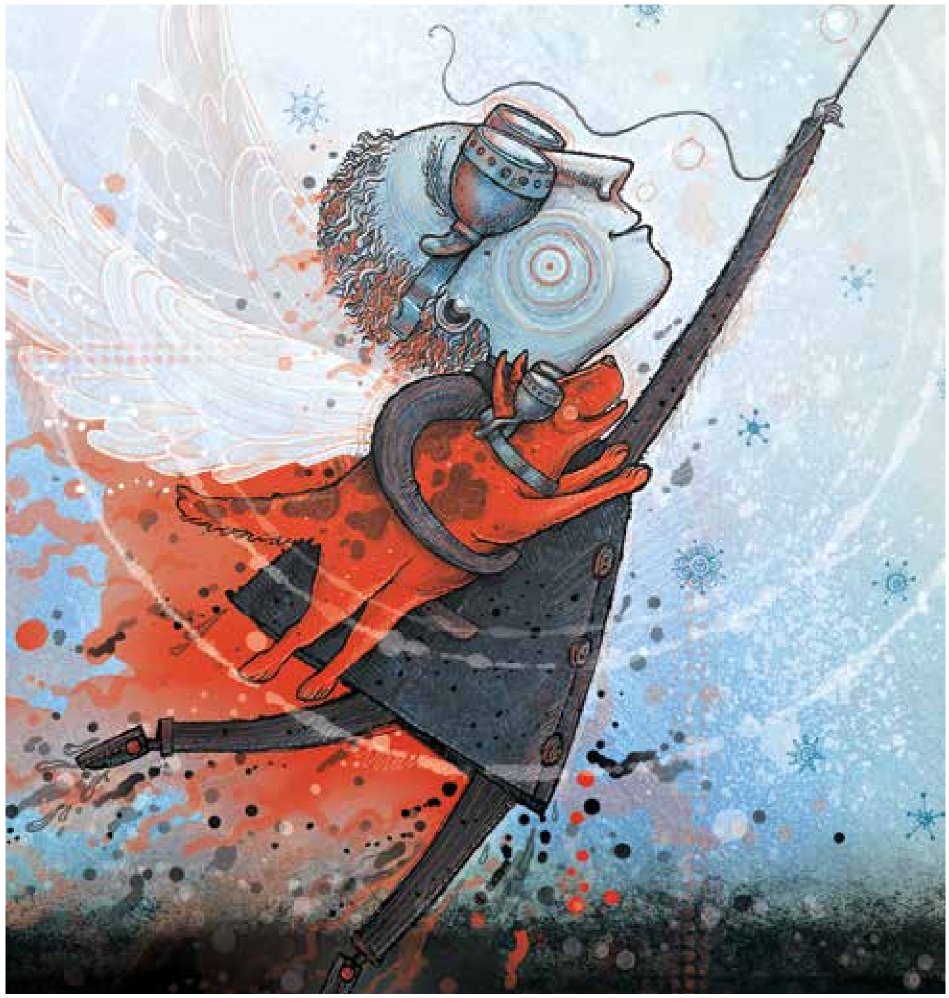

Illustration by Dennis Wunsch

They can now see the negative items falling off their credit report, with little to no effort. That doesn't, however, mean all of the credit clutter will be gone.

You don't have to look far to find credit-repair information these days. With all the information out there, however, have you ever wondered what is true? How do you cut through all the noise to detect what is going to help these clients improve their credit, so they can close on a loan? Not only that, how will you determine the amount of time it will take for the client to be ready? Maybe you have been afraid to use credit as a tool for growing your business or didn't even see it as an opportunity. But you can't ignore the times.

When looking at a credit report, think back to Magic Eye pictures — those chaotic images where, if you looked long enough, the noise would cut away and a 3D picture would appear. It's easy to stare at credit reports and see nothing but a lot of noise. There are three specific areas of the credit report, however, that can help you cut through that noise and bring maximum results back to your clients.

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Balances on revolving debt

Imagine two clients — call them Joe and Julie — who have similar profiles, yet vastly different credit scores. Joe and Julie have essentially the same job, make the same money and have the same assets. Both want to buy a home. Everything about their credit is identical. They even utilize the same amount of money from credit cards, and they both pay in full every month so they will not be charged interest.

Joe, however, pays off his credit card on the 18th of the month, and Julie pays hers on the 20th. Joe has a 740 FICO score and Julie has a 659. Why? The answer is simple: Because of one date.

Many creditors report updates to the credit agencies once a month, usually about a week before the bill arrives in your mail. Whatever the balance is the day they report is the balance shown on the credit report. In this particular case, the creditor reported every month on the 19th. Joe pays his card on the 18th, so the credit report shows non-risky credit utilization. The creditor reports Julie is using all of her available credit. She looks like a high risk and the score drops. Julie doesn't realize the balance reported by that creditor is one-third of what makes up her credit score.

This score will affect all kinds of things, such as credit card interest rates, insurance rates and, most importantly, mortgage interest rates. Because Julie's score is lower, she is going to have a higher mortgage rate. And because she will pay more each month, it diminishes her purchasing power. As home values appreciate, Joe will see a greater return on his investment because he can afford a higher-priced home.

Make sure clients are looking up their credit report online, and that they take note of the date the creditor last reported. That way, they can be sure to pay off their bill before that report date, and not suffer the same fate as Julie.

Date of last activity

The date of last activity is important for improving credit on open and active accounts. This date shows the last time you used this account. After you stop using an account, it will eventually stop reporting, because the creditors have to pay money to report your information.

Let's say you have potential homebuyers whose credit scores are just below where they need to be, but you don't see anything that can be corrected on the credit report. There are no collections or derogatory information. The credit cards are at zero balances, but then you notice one store-specific charge card, with a last-activity date of more than two years ago. Because the credit score is only taking into account what has reported in the last 24 months, this good account isn't being brought into the mix.

If this is the case, tell your client to go to that store and buy something small with the card, and while there, to also add his or her spouse as an authorized user on the account. Within days, their scores could skyrocket, and their loan problems could be solved. They may even be able to afford a nicer home than they imagined.

Date last reported

This is the date to follow for derogatory accounts including collections, judgments and charge-offs. Remember, the credit score is looking at the last 24 months of activity. Many times, collections only report a couple of times, just to make an "appearance" on the credit — enough to hopefully burden the consumer enough to pay it. Once the last-reported collection date is more than 24 months old, it has significantly less effect on the score.

This is the reason credit scores drop when someone pays a collection. By paying the collection, the date last reported is updated and, suddenly, a negative account is back in the mix. Many people think it is the date of last activity that drops their score, but technically the date of last activity should not change from the original date the creditor listed.

Once you obtain a credit report, go through each derogatory piece of credit and only put a check next to the debts that have reported in the past 24 months. By negotiating with creditors that have reported in the past 24 months, and attempting to pay off the debt in exchange for having that negative information deleted from the report, you can have a great impact on a credit score.

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More than ever, information is freely available — and that's not always a good thing. With so much information out there, it's difficult to know sometimes what is true. In addition, when it comes to credit, there is a certain shame and embarrassment that can come with having a low score, so people aren't always willing to ask how to raise their score. Boomerang buyers will rely on their lender to guide them through this difficult time, and understanding credit is an essential part of being a successful lender. By doing so, you may even earn back the trust of a buyer who is hesitant to make the same mistakes as last time. ■

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