CHRISTENSEN FINANCIAL
INC

WHY YOUR CREDIT SCORE MATTERS:
GET MORTGAGE READY!

CONTENTS

THE IMPACT OF YOUR CREDIT SCORE IN HOMEBUYING

CHRISTENSEN FINANCIAL INC

When you're applying for a mortgage, your credit score has the most meaningful impact on the rates you'll be offered. Typically, the higher your score, the lower the interest rates you could receive. Lenders will also look at your existing monthly obligations and your ability to repay those debts and decide whether or not they think you can afford an additional payment.[1]

Successfully managing these factors of your financial picture will set you up for success in the mortgage application process.

CREDIT SCORE BASICS[2]

Most credit scores use the Fair Isaac Corporation (FICO) model, which grades consumers on a 300- to 850-point range, with a higher score indicating lower risk to the lender. Generally, a score of around 740 or higher on the FICO scale is considered a very good to exceptional score.

SCORES BY RATING

Credit Score	Rating	% of People
300-579	Very Poor	17%
580-669	Fair	20.2%
670-739	Good	21.5%
740-799	Very Good	18.2%
800-850	Exceptional	19.9%

Sources: [1] https://www.bankrate.com/finance/mortgages/how-credit-scores-impact-your-mortgage-rate-1.aspx
[2] www.experian.com/blogs/ask-experian/credit-education/score-basics/what-is-a-good-credit-score/

THE IMPACT OF YOUR CREDIT SCORE IN HOMEBUYING

CHRISTENSEN FINANCIAL INC

EXAMPLE 1 – 4% VS. 5% VS. 8% INTEREST RATE

For example, a 30-year $200,000 loan at a 4 percent interest rate without any other fees would mean you'd have monthly payments of approximately $954.83. But take out a 30-year $200,000 loan at a 5 percent interest rate and your monthly payments will jump up to $1073.64. Raise that interest rate to 8 percent, and you're looking at $1,467.53 every month.

Loan Amount	$200,000	$200,000	$200,000
Term	360 months	360 months	360 months
Rate	4%	5%	8%
Monthly Principal + Interest	$954.83	$1073.64	$1,467.53
Difference/mo	0	$118.81	$512.70!

A 1% difference in interest could save you **hundreds of dollars** per year.

THE IMPACT OF YOUR CREDIT SCORE IN HOMEBUYING

CHRISTENSEN FINANCIAL INC

EXAMPLE 2 – 660 VS. 620 FICO SCORE

The Par Rate is lower by .625% for a 660 score compared to a 620 score. Total Points and Fees are lower by 1.9% for a 660 score compared to a 620 score.

Loan Amount	Estimated Closing Cost Savings	Estimated Savings over 5 years	Estimated Savings over 30 years
$100,000	$1,900	$4,997	$15,413
$150,000	$2,850	$7,496	$23,119
$200,000	$3,800	$9,994	$30,826
$250,000	$4,750	$12,493	$38,533
$270,000	$5,130	$13,491	$41,615

Comparison is based on pricing from 5/21/18 assuming a 30-year fixed rate FHA mortgage

A difference in 40 points on your credit score could mean **tens of thousands of dollars** over the life of your loan!

THE ANATOMY OF YOUR CREDIT SCORE[3]

35% - PAYMENT HISTORY

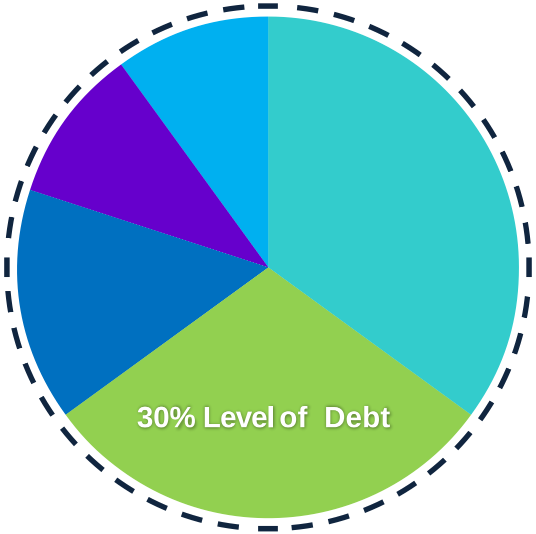
What this means: how timely you pay your bills affects your credit score more than any other factor.

Avoid: Serious payment issues, like charge-offs, collections, bankruptcy, repossession, tax liens or a foreclosure that can devastate your credit score.

Pro Tip: Get current on any accounts that are delinquent and pay your bills on time, every time.

[3] https://www.thebalance.com/factors-affecting-credit-score-960527

THE ANATOMY OF YOUR CREDIT SCORE[3]



30% - LEVEL OF DEBT

What this means: The amount of overall debt you carry, the ratio of your credit card balances to your credit limit (also called credit utilization), and the relation of your loan balances to the original loan amount.

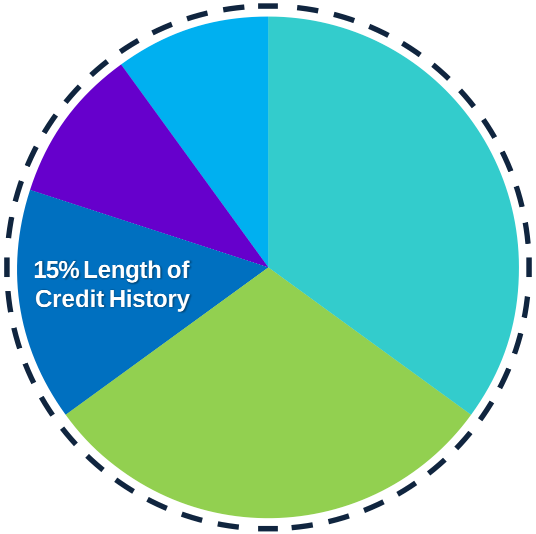
Avoid: Having high balances or too much debt as it can negatively affect your credit score.

Pro Tip: Your credit score can improve quickly as you pay down your balances. Keep your credit card balances at or below 30 percent of your credit limit for maximum effectiveness.

[3] https://www.thebalance.com/factors-affecting-credit-score-960527

THE ANATOMY OF YOUR CREDIT SCORE[3]

CHRISTENSEN FINANCIAL INC



15% - LENGTH OF CREDIT HISTORY

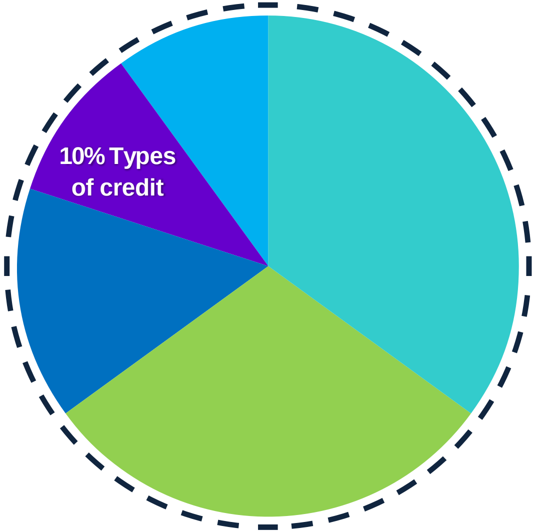
What this means: The age of your oldest credit account as well all the average age of all of your accounts factors into this aspect of your score.

Avoid: Opening several new accounts at once or closing existing accounts, this can lower your average credit age.

Pro Tip: Keeping old accounts active helps you have a mature credit age. Having an "older" credit age is better for your credit score because it shows that you have a lot of experience handling credit.

[3] https://www.thebalance.com/factors-affecting-credit-score-960527

THE ANATOMY OF YOUR CREDIT SCORE[3]



10% - TYPES OF CREDIT

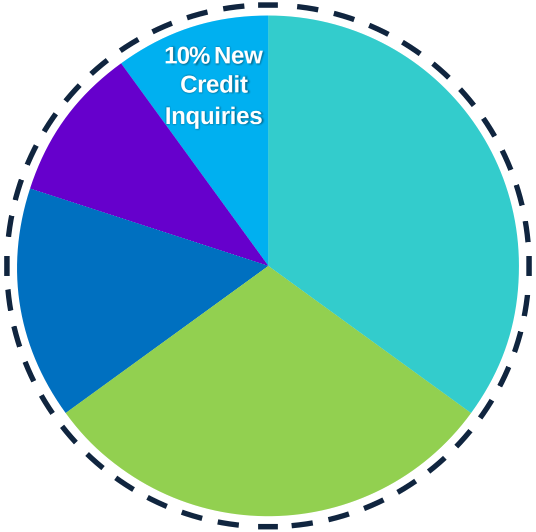
What this means: Two basic types of credit accounts exist:
1. Revolving accounts 2. Installment loans
Your credit score improves when you have experience with various types of credit accounts. Having both credit cards and loans for different types of assets, such as a car or a student loan, on your credit history can work in your favor. It shows you have experience managing various types of credit.

Avoid: Opening several new accounts at once or closing existing accounts, this can lower your average credit age.

Pro Tip: Types of credit only constitutes 10 percent of your credit score, so not having a certain type of credit, such as an installment loan, won't devastate your score. Open accounts only as you need them, and be wise about the types of accounts you open experience handling credit.

[3] https://www.thebalance.com/factors-affecting-credit-score-960527

THE ANATOMY OF YOUR CREDIT SCORE[3]



10% - NEW CREDIT INQUIRIES

What this means: Each time you submit an application that requires a credit check, a “hard” inquiry is placed on your credit report showing that you’ve made a credit- based application. There are also “soft” inquiries, such as checking your own credit report results, that don’t affect your score.

Avoid: One or two inquiries won’t hurt much, but several inquiries, especially within a short period of time can cost you several points off of your FICO score.

Pro Tip: Open new accounts and make new applications sparingly. While you’re mortgage rate shopping, try to compare lenders within 30 days of when you think you’re ready to pull the trigger on a loan. According to FICO, they won’t count it against your score if any mortgage or auto loan inquiries are made within 30 days of when they generate a credit report for a lender.

[3] https://www.thebalance.com/factors-affecting-credit-score-960527

7 STEPS TO MORTGAGE READY CREDIT[4]

CHRISTENSEN FINANCIAL INC

Before diving into a mortgage application, you should make sure your credit score and debt situations are in good standing. Here are 7 steps to help you get there.

1. CHECK YOUR CREDIT REPORTS

When you make your application, the mortgage lender look for three main things for a pre-approval:

1. A steady income
2. A down payment
3. A solid credit history

Checking your credit report will let you see if there's anything that's hurting your credit. There are 3 main credit bureaus that report your score: Equifax, Experian & TransUnion. Each can vary slightly based on different factors, so it's best to check all three of them. You can request a free report from each one.

You can also check your credit score for free from resources like these:

- AnnualCreditReport.com (Once a year)
- Credit Sesame
- Credit Karma

FYI: These credit inquiries are considered "soft" pulls and won't negatively impact your score.

[4] https://www.thebalance.com/before-you-apply-for-a-mortgage-960362

7 STEPS TO MORTGAGE READY CREDIT[4]

CHRISTENSEN FINANCIAL INC

2. DISPUTE INACCURATE INFORMATION

Sometimes simply correcting mistakes can help improve your score to get where you want to be. Misinformation can hurt your credit score (and raise your interest rate) or get your application denied. Get rid of any inaccurate information by disputing it with the credit bureau. If you have proof of the mistake, providing it will help ensure the mistake is removed from your report.

Which Credit Report Errors can you dispute?

- Payments reported late that were actually on time
- Accounts that aren't yours
- Inaccurate credit limit/loan amount or account balance
- Inaccurate creditor
- Inaccurate account status, for example, an account status reported as past due when the account is actually current

[4] https://www.thebalance.com/before-you-apply-for-a-mortgage-960362

7 STEPS TO MORTGAGE READY CREDIT[4]

CHRISTENSEN FINANCIAL INC

3. PAY OFF DELINQUENT ACCOUNTS

Delinquent accounts include any late accounts, charge-offs, bills in collection, and judgments. Mortgage lenders need to be convinced that you'll make your payments on time.

Outstanding delinquencies will seriously damage your chances of getting a mortgage. Pay off all accounts that are currently delinquent before putting in a mortgage application.

4. BURY DELINQUENCIES WITH TIMELY PAYMENTS

You need to establish a pattern of timely payments in order to get approved for a mortgage and get a competitive interest rate.

If you have a recent late payment - or you've just paid off some delinquencies - wait at least six months before applying for a mortgage for your credit score to adjust. The older the delinquency, the better your credit looks and the more money you can potentially save in the long term with a lower interest rate!

[4] https://www.thebalance.com/before-you-apply-for-a-mortgage-960362

7 STEPS TO MORTGAGE READY CREDIT[4]

CHRISTENSEN FINANCIAL INC

5. CALCULATE YOUR DEBT-TO-INCOME (DTI) RATIO[5]

$$\text{DTI} = \frac{\text{Monthly Debt}}{\text{Monthly Income}}$$

To start, add up the amount of your monthly debt payments, including the following:

- ✓ Mortgage or rent
- ✓ Minimum credit card payments
- ✓ Car loan
- ✓ Student loans
- ✓ Alimony/child support payments
- ✓ Other loans or lines of credit

Then, total your monthly income. Add up the amount you receive each month from:

- ✓ Gross income from a W-2 job or self-employment
- ✓ Bonuses or overtime
- ✓ Alimony/child support
- ✓ Other income from various sources

DIVIDE TOTAL DEBT BY TOTAL INCOME TO GET DTI %

[4] https://www.thebalance.com/before-you-apply-for-a-mortgage-960362
[5] https://www.thebalance.com/how-to-calculate-your-debt-to-income-ratio-960851

DECODING YOUR DTI RESULT[5]:

CHRISTENSEN FINANCIAL INC

<36% The healthiest debt load for the majority of people. If your debt-to-income ratio falls within this range, avoid incurring more debt to maintain a good ratio.

37-42% This isn't a bad ratio to have, but it could be better. If your ratio falls in this range, you should start reducing your debts. You may have some trouble getting approved for a mortgage.

43-49% A ratio that indicates likely financial trouble. You should start aggressively paying your debts to prevent an overloaded debt situation.

50%+ An extremely dangerous ratio. This means that more than half of your income goes toward debt payments each month. You should be aggressively paying off your debts.

[5] https://www.thebalance.com/how-to-calculate-your-debt-to-income-ratio-960851

7 STEPS TO MORTGAGE READY CREDIT[4]

CHRISTENSEN FINANCIAL INC

6. SET A BUDGET & REDUCE YOUR DEBT*

If you fall into any of the less-than-ideal DTI categories, your best next step is to set a budget and devise a financial strategy that you can stick to.

First, identify and track how you're currently spending your money. Then set your financial goals and create a budget around meeting those goals. Continue to track your spending to make sure you're staying within your budget and eliminate any bad spending habits. You can make budgeting and identifying where you over-spend simpler by using an app such as Mint.com or PersonalCapital.com.

Once you've created your budget and know where your money is going, it's time to start paying down your debt. A good tactic for dealing with debt is the Debt Snowball Plan.

THE PLAN WORKS BY FOCUSING ON ONE SMALL, MANAGEABLE DEBT AT A TIME.

[4] https://www.thebalance.com/before-you-apply-for-a-mortgage-960362

7 STEPS TO MORTGAGE READY CREDIT[4]

CHRISTENSEN FINANCIAL INC

6. SET A BUDGET & REDUCE YOUR DEBT*

Here's how to implement the Debt Snowball Plan:

1. Make a list of each of your debts, including the balance.
2. List them from smallest to largest.
3. Make minimum payments on all your other debts and funnel all of your extra funds into the first (smallest) debt.
4. Each time you pay a debt in full, work on the next smallest debt on your list. Funnel your extra funds, including the payment from the first debt into the next debt.
5. Continue this program until your DTI ratio meets a healthy goal!

By starting with your smaller debts, you see results quickly, which helps motivate you to keep going. Once you get your debt under control and credit score in good shape, your credit is mortgage ready!

[4] https://www.thebalance.com/before-you-apply-for-a-mortgage-960362

7 STEPS TO MORTGAGE READY CREDIT[4]

CHRISTENSEN FINANCIAL INC

7. DON'T CREATE ANY NEW DEBT

Once the mortgage application has begun, it's imperative that you stay away from starting any new credit-based transactions until after you've gotten your mortgage. That includes applying for credit cards, buying a new car or major home purchases (like furniture or appliances). Make sure you don't close any accounts, either. Discuss a full list of Do's & Don'ts with your loan officer before your application to ensure no obstacles pop up during the mortgage process.

**Please note: Loan Officer is not a credit expert, this information is provided by credit analysts and not all consumers credit will be impacted the same. Christensen Financial, Inc. is not affiliated with any credit repair organizations and does not provide credit repair solutions. Please see a professional credit counselor for further guidance regarding your specific financial situation.*

[4] https://www.thebalance.com/before-you-apply-for-a-mortgage-960362

AVOIDING CREDIT REPAIR SCAMS

CHRISTENSEN FINANCIAL INC

Remember, improving your credit legitimately takes time and effort. It's important to understand that there is no quick fix. However, you need to be aware of the multitude of companies out there who claim they can erase your credit problems completely.
Make sure you recognize credit repair schemes before you become a victim.

Red Flags to look out for:

- If a company requires payment for services before they are provided to you. Under the Credit Repair Organization Act, companies cannot ask for payment until they have fulfilled the agreed upon services.
- If a company suggests that you do not contact any of the three major national credit reporting companies directly.
- If a company tells you they can remove most or all of the negative information on your credit report, even if the information is correct.
- If a company recommends you invent a "new" credit identity by applying for an Employer Identification Number rather than using your social security number.
- If a company advises you to dispute all the information on your credit report, regardless of its accuracy.

The Federal Trade Commission helps prevent fraudulent business practices in the marketplace. To file a complaint or get more information, visit www.ftc.gov.