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Credit Repair Kit

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Importance of Your Borrower's Credit Rating

Good credit is more important than money in the bank. When your borrower is ready to buy a house, a second home, an investment property or refinance their existing home, their credit report carries a lot of weight with mortgage lenders. It is not based on their character, intentions, or circumstances. There is nothing personal about it. It is just a piece of paper representing your borrower and their past. If their credit report is incorrect, inaccurate or misleading, getting a mortgage to buy a home may be harder to get.

Since the borrower's previous credit repayment performance reflects their attitude toward credit obligations, determining their credit worthiness is one of the most important components of the loan process. Lenders therefore review your borrower's credit report to establish their credit history by examining their performance with mortgage payments as well as with revolving and installment debt such as department store and bank credit cards and car loans.

Payments received 30 days past the due date are usually recorded as late in your borrower's credit report. However, lenders are generally not concerned with isolated, minor slow payments unless an ongoing pattern is established. Credit reports also include public records such as collections, repossessions, foreclosures and bankruptcies. Though these items may indicate past credit problems there are often valid reasons, and a well-established pattern of excellent recent credit will be taken into consideration. Lenders will typically allow one or two late mortgage payments or public records.

Credit Rating

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Credit rating is a system used by some creditors to determine whether to give your borrower a loan or credit card. The creditor may examine your borrower's past credit history to evaluate how promptly they pay their bills and look at other factors as well, such as the amount of your borrower's income, whether they own a home, and how many years they have worked at their job. A credit rating system awards points for each factor that the creditor considers

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important. Creditors generally offer credit to those consumers awarded the most points because those points help predict who is most likely to pay back the debt.

Understanding Credit Scores

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In the mortgage-lending world, credit scores either make or break your borrower when it comes to obtaining a home mortgage or getting the best interest rate they can. This is the "mortgage rating" system used to get a mortgage from both conventional and sub-prime lenders.

Simply, Credit scores are numbers calculated based upon your borrower's credit history. The better their credit, the higher their number or score will be - the worse their credit, the lower the score. In some instances, lack of credit results in "no score" on your borrower's report requiring them to provide "alternative credit" via their rental, utility or telephone payment histories.

Functionally, Credit scores were created to simplify the mortgage lending industry - to the contrary many brokers and lenders feel this manner of scoring creates more problems.

Clearing Credit Mistakes

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It is common for borrowers to find negative items on their credit report that do not belong to them. Recent studies indicate that up to 45% of all credit reports include erroneous items. Under the Fair Credit-reporting Statutes consumers have the right to challenge such items. Credit-reporting agencies must investigate disputed items and make corrections within 30 days. They must also demonstrate that their information is accurate. If they do not, they are in violation of the law. Anything they cannot prove must be removed from the report. A corrected version of the report must be sent to anyone who recently received the inaccurate version.

If your borrower finds mistakes on their credit report, the first step is to send a challenge letter to the agency that reported the item. When a credit-reporting agency receives a dispute, it must investigate and record the current status of the disputed items within a "reasonable period of time," unless it believes the dispute is "frivolous or irrelevant." If the credit-reporting agency cannot verify a disputed item, it must delete it. If your borrower's report contains erroneous information, the credit-reporting agency must correct it. If an item is incomplete, the credit-reporting agency must complete it.

For example, if your borrower's file showed that they were late in making payments on accounts, but failed to show that they were no longer delinquent, the credit-reporting agency must show that their payments are now current. Or if their file showed an account that belongs to another person, the credit-reporting agency would have to delete it. Also, at your borrower's request, the credit-reporting agency must send a notice of correction to any report recipient who has checked their file in the past six months.

If a reinvestigation does not resolve their dispute, the Fair Credit-reporting Act permits your borrower to file a statement of up to 100 words to explain their side of the story. The credit-reporting agency must include this explanation in their report each time it sends the report out. Credit-reporting agency employees often are available to help your borrower word their statement.

Be aware, however, that when negative information in your borrower's report is accurate, only the passage of time can assure its removal. Credit-reporting agencies are permitted by law to report bankruptcies for 10 years and other negative information for seven years. Also, any negative information may be reported indefinitely for use in the evaluation of their application: \$50,000 or more in credit, a life insurance policy with a face amount of \$50,000 or more, or consideration for a job paying \$20,000 or more.

How to Register a Dispute

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Your borrower must make their dispute directly to the credit-reporting agency. Although the Fair Credit-reporting Act does not require it, the Federal Trade Commission staff recommends that your borrower submit their dispute in writing, along with copies (NOT originals) of documents that support their position.

In addition to your borrower providing their complete name and address, their letter should clearly identify each item in the report they dispute, explain why they dispute the information, state the facts, and request deletion or correction. Your borrower may want to enclose a copy of their credit report with the items in question circled.

Your borrower should send their dispute by certified mail, return receipt requested, and keep copies of the dispute letter and enclosures. By doing so, they can document what the credit-reporting agency received.

Clearing Open Collection Accounts

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If your borrower's credit report shows they have open collections accounts, they can request the collection agency to remove the items from their credit if they agree to get it paid. Your borrower may also be able to get a release known as a "Settlement Letter" that authorizes the local credit-reporting agency to remove it from their mortgage credit. Most collections need to be paid before your borrower can qualify for a mortgage however, several mortgage loan programs allow collections up to \$500 or even higher if they were caused by a medical problem or will not attach to the title on the property.

Re-Aging Old Past Due Accounts

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Borrowers are also entitled to ask creditors to re-age their account (start over) so the old late payments will no longer appear on their credit record. Each month creditors send in a magnetic tape to the credit agency and if they delete your borrower's account on the tape it is automatically removed at the credit agency.

Building Credit

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If your borrower hasn't been told that they were denied credit because of an "insufficient credit file" or "no credit file" and they have accounts with creditors that do not appear in their credit file, they can ask the credit-reporting agency to add this information to future reports. Although the credit-reporting agencies are not required to do so, many reporting agencies will add other verifiable accounts for a fee.

For your borrower's mortgage loan they may be able to build credit by obtaining credit letters from local sources such as their landlord, phone or utility company, anyplace they purchased items of significance such as a TV, tires, furniture, etc., or any business that can write a credit reference letter for them.

Letters of Explanation

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Frequently a letter of explanation will help if there are unusual circumstances. Emergencies, extended out-of-area travel during the payment period, mortgage payments which rolled over from one month to the next, banks which held checks until they cleared, medical problems, bills sent to the wrong address, items that really don't belong to your borrower, items that were covered in a divorce settlement are just some of the possible explanations.

Credit Inquiries

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If your borrower is considering buying a new home, advise them to be careful with credit inquires. Generally, lenders do not like a lot of inquires on a credit report. Excessive inquires can result in a credit denial as easily as bad credit.

Credit Evaluation Guide**

"A" CREDIT

- Excellent credit last two years
- Job stability - two years in same profession
- Debt ratio (house payment, installment & revolving) not over 55% of gross income
- Consumer credit - two 30-day late payments but no 60 or 90 day
- Mortgage credit - no late house payments in last two years
- Liens, judgments or collections paid and none in last two years.
- Bankruptcy - at least four years since discharge - *excellent credit since*

Best Interest Rate

Loan-to-value 95%-97% of appraisal
Rate and Term Refinance 90% LTV
Cash Out Refinance - 80% LTV

"AX" CREDIT

- Good credit last two years
- Job stability - two years in same profession
- Debt ratio (house payment, installment & revolving) not over 55% of gross income
- Consumer credit - up to four 30-day late payments, no 60 or 90
- Mortgage credit - one late payment in last 12 months
- Liens, judgments or collections must be paid if they affect the title to the property
- Bankruptcy - at least four years since discharge - *good credit since*

Best Sub-Prime Interest Rate

Loan-to-value 90% - 95% of appraisal
Rate and Term Refinance - 90%
Cash Out Refinance - 90%
Stated Income Program - LTV 85%
Investment Property - 80%

"B" CREDIT

- Fair credit last 12 months
- Job stability - 18 months in same profession
- Debt ratio (house payment, installment & revolving) not over 55% of gross income
- Consumer credit - up to five 30-day late payments, one 60 and one 90
- Mortgage credit - three 30-day late payments, no 60 or 90 in last 12 months
- Liens, judgments or collections must be paid if they affect the title to the property
- Bankruptcy - at least four years since discharge - *good credit since*

Higher Interest Rate

Loan-to-value 80% to 85% of appraisal
Rate and Term Refinance - 85%
Cash Out Refinance - 85%
Stated Income Program - LTV 75%
Investment Property - 75%

"C" CREDIT

- Fair credit last 12 months
- Job stability - one year in same profession (can be six months)
- Debt ratio (house payment, installment & revolving) not over 55% of gross income
- Consumer credit - 30-day late payments not counted, five 60, three 90
- Mortgage credit - twelve 30-day late payments, one 60, one 90 in last 12 months

Considerably Higher Interest Rate

Loan-to-value 75% to 80% of appraisal
Rate and Term Refinance - 80%
Cash Out Refinance - 80%
Stated Income Program - LTV 70%
Investment Property - 70%

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- Liens, judgments or collections must be paid if they affect the title to the property
- Bankruptcy - at least two years since discharge
- *fair credit since*

****Meeting this criteria does not guarantee an approval. Lenders may have additional requirements not listed.**

Crediting Reporting Agencies

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Following is a list of credit-reporting agencies. It is important for your borrower to make their dispute(s) directly to them:

Experian
P.O. Box 2104
Allen, TX 75002
Phone [\(800\) 682-7654](tel:8006827654)

Equifax Credit Information Services
P.O. Box 740256
Atlanta, GA 30374
Phone [\(800\) 685-1111](tel:8006851111)

TransUnion
P.O. Box 390
Springfield, PA 19064-0390
Phone [\(601\) 933-1200](tel:6019331200)

CSC Credit
652 North Belt East, Ste. 133
Houston, TX 77267
Phone [\(713\) 878-1900](tel:7138781900)

Sample Letters

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When requesting information or disputing information on your credit report - always include: Your full name, spouse's full name (if relevant), your current address, your previous addresses going back five years, the date of your birth, your social security number(s) and phone numbers (home and work).

If disputing information include: your credit ID# from the reporting bureau, the account name you are disputing, the account number and the reason you are disputing the item.

After the credit reporting agency receives your letter it has 30 days to investigate any requests and is required to send you a written report of its findings.

Free Credit Report

Credit reporting agencies are required by law to send you a free credit report if you have been denied credit.

To Whom It May Concern,
I have recently been denied credit as shown on the attached letter, as a result of information reported by you to add in name of creditor.

I understand that if a person has been denied credit as a result of a report provided by a credit bureau, they are entitled to a free copy of the report you sent to the creditor. Please send me my free copy immediately upon receipt of this letter. Thank you for your cooperation in this matter.

Request Credit Report

To Whom It May Concern,
Please send me a copy of my most recent Credit Report. I have enclosed the following information to identify myself (copy of driver's license, recent utility bill, etc.), and have enclosed \$8.00 to cover the cost of your sending me my report. Should you have any questions, please contact me at my address or phone number as shown above. Thank you for your services in this matter.

Initial Dispute Letter

To Whom It May Concern,
Enclosed is a copy of my credit report. Please note the highlighted item(s). These items are incorrect. Please remove them from my file immediately.
Thank you for your services in this matter.

Initial Dispute Letter on a Specific Account

To Whom It May Concern,
The following listed errors on my Credit Report are incorrect.
List errors:
e.g. This account number is not correct:
Name of Account _____ Correct Acct. #: _____
or, My account with this Credit Union is in good standing although you indicate on your report that I was late in my

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payments 30 days twice and 60 days once. I have never been late in my payments to this account. I shall expect your prompt attention to this matter in writing.

Second Dispute Letter to Request Re-Investigation

To Whom It May Concern (or name if you have one),

I received your response regarding the item(s) I requested that you investigate on my credit report. Your response claimed that you verified the items(s) as correct as presented on the initial report. I am sure you did a thorough investigation, but I disagree with the results of your investigation and want the inaccurate items removed from my credit report.

I am requesting for the second time that you correct the problem on my report. It is imperative that you re-investigate these incorrect items because they are still causing serious and damaging impact on my current financial status. This is very important to me and I will take whatever actions are necessary for my self-defense, including legal action to recover my financial losses.

I am enclosing a copy of my original letter to you along with my credit report. Also, I am aware that the Fair Credit Reporting Act allows me to request that you provide me with the name(s) and business address(es) of those merchants with whom you verified this information. I want to directly contact the person supplying you with incorrect information that continues to appear on my Credit Report.

As I understand my legal position, you are liable for this error. If this issue is not corrected immediately, I shall be forced to take stronger action against your organization.

Letter of Acknowledgement Requested

To Whom It May Concern,

A written investigation request was made to you concerning certain disputed items on my Credit Report on (date of your first letter) Please see the enclosed copy of my letter to you along with photocopy of returned postal receipt. As of this writing, I have not received your reply as requested.

I have been made aware through legal counsel that, according to the Fair Credit Reporting Act, you must respond to my request within a reasonable period of time as to your findings.

Thank you for your help in resolving this matter expeditiously.

Request for Deletion of Obsolete Information

To Whom It May Concern,

I am writing to you to request that you delete certain information from my current credit report that has become obsolete.

I refer specifically to the information highlighted on the enclosed copy of my consumer credit report. This information is obsolete and should be removed. Please look into this matter and delete this information from my records on your credit files promptly upon receipt of this communication.

Thank you for your services in this matter.

Request to Add Information to Credit Report

To Whom It May Concern,

In reviewing a copy of my credit report from your agency, I discovered certain important, relevant information that attests to my credit-worthiness is missing. As such, please add the following to your records for my credit file:

(List accounts with account #, name on the account, creditor name and address)

I have included a copy of my most recent credit report and have detailed the information I would like to have added to it. Please note that I have included all relevant account numbers as well as the complete names and addresses of all pertinent creditors. In the event that you require any further information, please contact me directly at the telephone number or mailing address provided below.

Please advise me of any fees that may be required to expedite your updating of my record(s).

Request Removal of Late Payment

To Whom It May Concern,

I have learned that several payments to my account have been marked as "late" on my Credit Report. Please note that I have always been prompt in making my payments in the past. I have only been late with one (number) of payments because (Give Details).

Because of the circumstances and my overall excellent record, I would like you to contact the following Credit Bureaus and correct the records on my payment history.

Since this late payment was the result of the above excusable reason, please correct the payment history for my account at the following Credit Bureaus, which handle your organization's account histories:

(Provide Credit Bureau names and addresses)

It is imperative that my Credit Report exemplifies the good relations I have enjoyed with your business in the past, and that the corrections in the report are more representative of my good financial habits.

Thank you for your assistance in this matter.

Settlement of Account

To Whom It May Concern,

THIS AGREEMENT is entered into on (date), between (your name), residing at (your address, city, state and zip code)

and (name of creditor), conducting business at: (creditor address, city, state and zip code).

Whereas, Debtor and Creditor have previously been engaged in a certain commercial transaction, and

Whereas, certain circumstances subsequently developed which caused both Debtor and Creditor to desire to enter

into this agreement.

Therefore, based upon the mutually agreed upon promises contained herein:

1. Debtor hereby agrees to pay, and Creditor agrees to accept, \$ (amount) as a final settlement for any and all amounts owed by Debtor to Creditor.
2. Creditor agrees to cease any and all attempts to collect this debt, either directly or through a collection agency.
3. Creditor agrees to notify, in writing, each credit bureau with whom the creditor deals that any adverse, derogatory, or otherwise negative information regarding Debtor's account is, effective this date, retracted, and should be deleted from Debtor's consumer file and report.

In Witness Whereof, the Debtor and Creditor have affixed their signatures to this agreement as of the date shown above.

Debtor

Creditor