LENNAR MORTGAGE

homeBuyer SOLUTIONS GROUP

A GUIDE TO

Understanding Your Credit

Your credit score is an important part of your financial identity and is an assessment of your past and present credit responsibilities.

We at Lennar Mortgage want you to feel financially empowered. By understanding what credit is, how it works and why it's important, we are confident that you will be able to make the right decisions for your future.

After reading through this guide, you should understand:

- What credit is and why it is important
- How your credit score is calculated
- The common misconceptions around credit
- How to improve and maintain your credit score

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Introduction to Credit

What is it and why is it so important?

Your credit is one of the most important aspects of your personal finances but what exactly is it? And what makes it good or bad? To keep your credit healthy, you need to know how it works, how to keep track of it, and how you can manage it.

When it comes to loans (such as credit cards, auto and home loans) your credit is your reputation as a borrower. It allows lenders to determine how likely you are to repay your loans. With a high credit score, you are proving that you know how to manage your money and that they can count on you to pay your dues.

Your Credit Report

Your credit report is a master document of your credit and has information about your credit activity including all of your accounts, your balances, your credit limits, inquiries, payment history and more.

Under federal law, consumers are allowed to view their credit reports *free* once per year. It's important to take a look at your report to ensure that all information is accurate.

> Get a Free Copy of Your Credit Report at Annual Credit Report

The Credit Bureaus

The credit bureaus function as a database of information about you and your credit. They are responsible for collecting and maintaining consumer credit information and providing it in the form of a credit report.

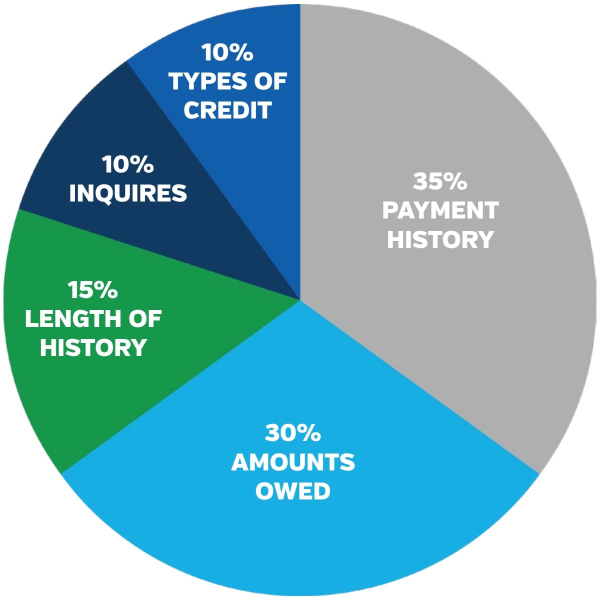
There are several credit reporting agencies but most are familiar with the Big Three: Equifax, Experian, and TransUnion.

Calculating Your Credit Score

Breaking down your credit score

While your credit report keeps a running track record of your credit history, your credit score is a cumulative number that is used as a measurement for how trustworthy you are as a borrower. Your credit score can impact many areas of your life, particularly when making large purchases, yet few seem to fully understand how it is calculated.

The most widely used score is the FICO score, ranging from 300 to 850. In general anything over 740 is considered excellent and will qualify you for the best rates. If your score falls below a 650, you may end up paying higher rates on your loans and credit cards, if you qualify at all. Your credit score is determined by **five** factors:



Payment History

How often do you pay your accounts on time? Late payments are the biggest culprit for lower scores.

Amounts Owed

How much of your total credit have you used? Lowering your debt can boost those scores up.

Length of History

How long have you had credit? A longer history of responsible credit can lead to higher scores.

Inquires and Types of Credit

Not opening several accounts at a time and having different types of credit (like an auto loan, a credit card, ect.) can improve your credit score over time.

Credit Myths Debunked

Find out what counts on your credit - and what doesn't!

"Checking my credit score will hurt my credit."

Not necessarily. Every time someone checks your credit report it is called an inquiry. A "hard inquiry" is when a prospective lender checks your credit. This can slightly lower your credit because it suggests that you are adding to your debt. Looking up your own report would be considered a "soft inquiry" and should not affect your score.

"Closing my credit cards will help my score."

Closing your accounts may not always be the best bet. Your credit utilization ratio is your credit card balance compared to your credit limit, and it accounts for a big chunk of your score. When you close an unused account, you reduce your total available credit, so your credit utilization goes up. A high credit utilization indicates that you're likely to spend more than your monthly income, making you a high risk.

"My credit score accounts for my demographics."

Credit reports do not contain demographic information such race, national origin, religion, profession, disabilities, sexual orientation or military veteran status. They also don't say how much you have in the bank or in retirement accounts.

"Paying off my collection debts will erase them."

Don't get us wrong, we want you to pay off your debts! Just know that the evidence of your past due payments can stick on your credit report for up to seven years. If you're trying to increase your scores, try reaching out to the account directly and ask that they completely delete this record from your report.

"I can hire someone to fix my credit."

There is nothing a credit repair company can do that you can't do yourself. There are several reputable services that can help you come up with a plan to repay your debts and how to go about removing inaccurate information from your report. The only legitimate way to enhance your credit score is to practice good credit management.

How credit affects home buying

Discover how your credit can impact your future

When it comes to buying a home, your credit score will be one of the primary metrics used to determine if you qualify and if so, what your loan pricing will be.

As we mentioned before, there are three major credit bureaus - Equifax, Experian, and TransUnion. When you apply for a mortgage, the lender will pull a merged credit report from all three bureaus and will evaluate your eligibility on whichever score is in the middle.

How Your Credit Impacts Pricing

Your credit score will be the key to getting the best rate on your mortgage. Scores above 740 will often qualify you for the best mortgage options with higher loan amounts and lower interest rates. As your score decreases, the riskier you seem to a lender. If approved, you'll likely be paying some higher interest rates.

Plan Ahead and Avoid Surprises

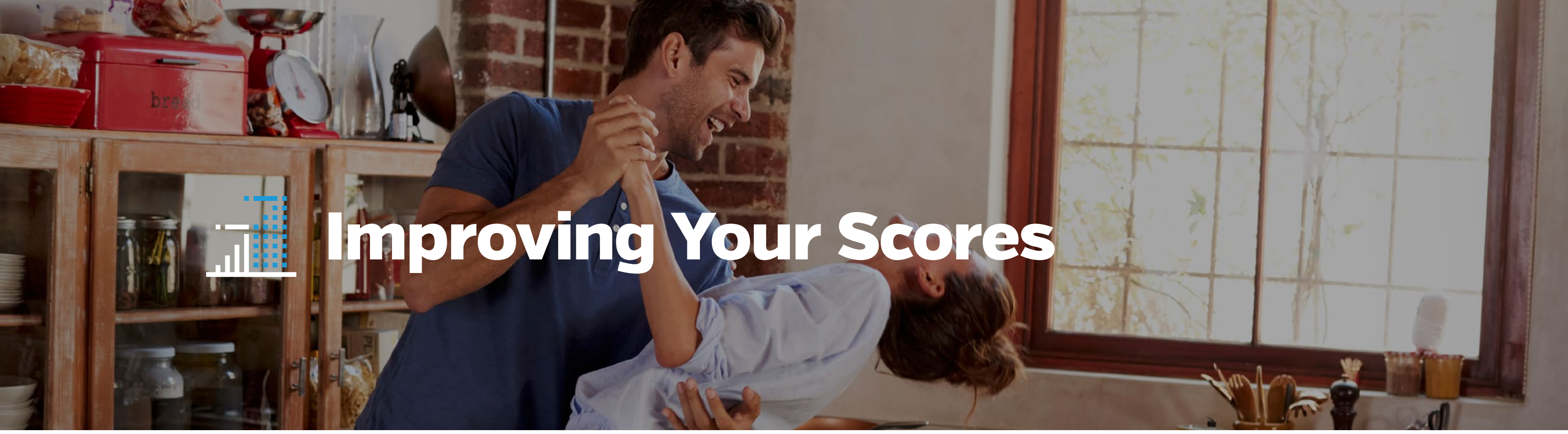
You should request a copy of your credit report from all three bureaus the minute you consider buying a home. Review your score and take a look at what might be affecting it. Are there any collections you were unaware of? Are you noticing a problem with late payments? Is there anything that is being incorrectly reported?

Rather than wait until the loan application, doing some legwork ahead of time may avoid any surprising delays.

> How Do Lenders Evaluate Credit?

> What Buying a Home Does to Your Credit

> How is My Mortgage Interest Rate Determined?



Improving Your Scores

It’s all about changing some habits.

Make Your Payments on Time

Making late payments is the largest cause of a negative score and can remain on your report for up to seven years. Consider setting up auto-payments for all of your bills so that none of them go undetected.

Get a Credit Card

If you have never had a credit card, your scores may be suffering because of it. Ten percent of your score comes from the various types of credit you have. Credit cards don’t have to be scary! Just make your payments on time and don’t spend more than you can pay back. By adding a new account with a positive payment history, you will be showing creditors you are on solid ground.

Problems getting a credit card? Another option would be opening a secured credit card. A secured card requires a cash collateral deposit that becomes the credit line for that account. For example, if you put $500 in the account, you can charge up to $500. This is a great option for those with little to no credit history or for those who are trying to correct a poor history and/or payment record.

Improve Your Credit Utilization Ratio

The debt-to-credit ratio is one of the more important factors when determining your credit score. If each credit card balance is more than 30% of your credit limit, it may be dropping your score – even if you’re paying off your balances in full! That’s because it’s your statement balance that is being reported to the bureaus. Keep an eye on those balances, and consider pre-paying some of it before your statement comes in.

Creating the world’s simplest path to homeownership

If you are an aspiring homeowner but worried that your credit may need some work, our **Home Buyer Solutions Group** can help you get there. Our team of professional Credit Specialists will provide the guidance you need to improve your scores and successfully prequalify for a mortgage - all at no cost to you. **Learn More about HBSG >**