

Homes & Money

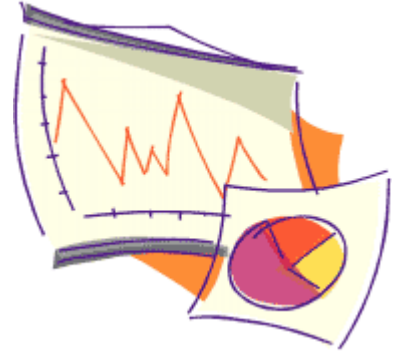
MONTHLY ADVISORY FROM THE DESK OF DOUGLAS BONCOSKY

July / August 2006

Credit Score Advice

Lending decisions are being made today based on what our credit scores are. In the months ahead, I am going to include in my newsletters tips on what you need to know to either increase your scores or maintain your current high scores. Should you have problems or need help in determining your scores or how your scores may impact future decisions, feel free to call me before you decide on a course of action. There is a lot of mis-information out there, and some of what you need to know is counter-intuitive.

Tip # 1: Make all your inquiries in a 2 week period — Ten percent of your credit score is based on a record of how many times your report has been viewed by a third party in the past year. That being said, Fair Isaac (referred to as FICO score) knows you will need to rate shop when looking for a new mortgage or auto-loan. Once a year, Fair Isaac allows you to have your credit pulled unlimited times in a two week period while shopping for a car or home and count the period as only one inquiry. When every point matters, make sure that you are able to do your car or mortgage shopping in a two week period.



Tip # 2: Keep your credit separate from your spouse — There is no reason, even if you are Romeo and Juliet, to combine your credit with your spouse. For instance, let's say that both Mr. and Mrs. Smith have credit scores of 700. In order to get the best loan possible, they need twenty points or a score of 720. If Mr. Smith transfers his balances to Mrs. Smith's cards, he could possibly raise his score the needed twenty points in order to get their desired loan.



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Things to Think About

- 1. MORE EXPENSIVE** – The US imported \$20.0 billion of foreign crude oil in May 2006, up +90% over the \$10.5 billion of crude oil we bought just 2 years ago in May 2004. The amount (in barrels) of crude oil imported per day however is up only +2% over the 2-year period (source: Commerce Department).
- 2. CLOSER TO THE LOW:** In the last 25 years, the yield on the 10-year Treasury note has been as high as 15.84% (9/30/81) and as low as 3.13% (6/13/03). The 10-year note closed last week at 5.07% (source: Federal Reserve).
- 3. MY EYES GLAZE OVER** - The individual taxpayer Form 1040 is just 2 pages long. The instructions however from the government that go with Form 1040 are 142 pages long (source: IRS).
- 4. REAL ESTATE RICH:** 85% of American homeowners within 10 years of retirement view the equity in their homes as a reliable source of income during their post-employment years (source: Prudential REA).
- 5. BEHIND THE REST OF THE WORLD:** The USA 's economy grew by an annualized +4.8% in the 1st quarter 2006, greater than its +3.4% anticipated growth for all of 2006. The world economy is projected to grow +4.9% during the current calendar year (source: Commerce Department, IMF).

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Credit Score Advice

Afterwards, the Smith's could add Mrs. Smith to the deed, transfer the balances back to Mr. Smith's cards and enjoy the 1st class interest rates they deserve.

Tip # 3: Secrets of Paying Collections — In most circumstances it is important to pay or settle unpaid collections. Not paying collections can lead to a lawsuit or a collection agency selling the collection to other agencies when the debt remains unpaid, thereby adding more collections to your credit report. But that's only within 4 years from the date of last activity. What happens after 4 years? I always answer this question by saying that clients should be willing to pay as much as 100 cents on the dollar if the collection agency agrees to delete the account with payment in full. Paying a 4 year old (or older) collection without deletion has 2 effects:

1. Updating your account to report as "paid in full". Having a paid collection account does not help your FICO score any more than an unpaid collection account. **BEWARE, MOST COLLECTORS DO NOT KNOW THE DIFFERENCE BETWEEN PAID IN FULL AND DELETION.**
2. Reducing your FICO score. Your FICO score drops because Fair Isaac considers the date of last activity for delinquencies. Since a collection is a delinquency, payment in full brings the collection current and hurts the score. In other words, recent activity (even if it is paying it off) on a derogatory item will hurt your score.

Therefore...

Tip # 4: Don't pay off old collections — Why would you ever not want to pay outstanding collections? Because, due to an error in the credit scoring software, when you do and your credit score is recalculated your paid collection becomes the most recent item on your report. If your collection is more than four years old, having a recent paid collection will hurt you more than leaving it unpaid.

Things to Think About

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- 6. YOU MUST WAIT** - The Fed's monetary policy (e.g., rate hikes) typically works on a lagging basis. The last time the Fed raised short-term rates at least 7 consecutive times (before the current rate-hike cycle of 17 increases) was over the 12 months from 2/94 to 2/95. Inflation on a trailing 12-month basis continued to rise during the 4 months after the Fed stopped raising rates in 2/95 before beginning its descent (source: Federal Reserve, DOL).
- 7. ELDERLY SPENDING LESS:** Households headed up by people ages 65-74, traditionally thought of as individuals in retirement, spend 24% less money per year than households headed up by people ages 55-64, traditionally thought of as individuals in the years leading up to retirement (source: Department of Labor).
- 8. IT'S JUST A FEW FOLKS:** 49% of the total health care costs of employers' medical plans are incurred by only 4% of the participating employees and their dependents (source: Watson Wyatt Worldwide).
- 9. STAY IN SCHOOL:** Workers at least age 18 with just a high school diploma make an average of \$27,915 annually while those with a bachelor's degree from college make an average income of \$51,206 or +83% more. Workers who have gone beyond 4-years of college education and achieved an advanced degree make \$74,602 on average or +46% more than those with just a 4-year college education (source: Census Bureau).
- 10. I'LL START TOMORROW:** 32% of the parents who expect to pay for the future college education of their children have not saved anything for that objective (source: Harris Interactive).

I will be out of the office July 20th to August 4th for my Wedding & Honeymoon, thus the combined newsletter. Please contact Rich Postlethwait at 847-925-0300 x 240 for any questions while I'm away!

Rates at a Glance

Fixed Products

| | |
|---------------|--------|
| 30 Year Fixed | 6.625% |
| 15 Year Fixed | 6.375% |

Adjustable Rate Arms

| | |
|------------|--------|
| 7 Year Arm | 6.625% |
| 5 Year Arm | 6.500% |
| 3 Year Arm | 6.375% |
| 1 Year Arm | 6.250% |
| Prime | 8.250% |

Illinois Residential Mortgage
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