


FIRST SECURITY LOAN

OutLook

MORTGAGE

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FIRST SECURITY LOAN
A Division of Residential Mortgage Capital

Credit Secrets from Insiders

Optimize Your FICO Scores with our Mortgage Advisors' Tips

Most people considering a home purchase have at least heard of FICO scores, numerical credit ratings originally developed by Fair Isaac & Company in San Rafael. Before the widespread adoption of FICO scoring about 10 years ago, credit granting was often based on whom you knew, instead of your track record of managing credit.

Savvy homebuyers have certainly received the message that learning your FICO score is a good idea before applying for any mortgage. Beyond that, misconceptions about FICO scores abound. Did you know, for example, that you can actually *reduce* your score just by obtaining it?

To help you optimize your FICO scores, our panel of First Security experts provided the following tips:

Above all, talk with your First Security mortgage advisor *first!* We cannot emphasize this step strongly enough. First Security professionals will be happy to recommend ways you can obtain credit reports that will *not* reduce FICO scores.

In addition, follow these general suggestions:

Buy a house before a car. Many people buy a car immediately before shopping for a home. *Don't do that!*

Why? Lenders consider not just your credit, but also your income and monthly payments when deciding how much you can borrow. Driving home a shiny new BMW from the auto mall will have two immediate effects on your finances:

- Your monthly payments will *increase*, and
- Your income available to pay a mortgage will *decrease*.

In other words, buying the car will lower the amount you can borrow and reduce how much house you can buy. Simply put, if you care about maximizing your borrowing potential and homebuying power, don't buy the car first.



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Don't apply for new credit cards, including department store charge cards. Each card application will trigger a credit inquiry, and in general, every inquiry lowers your score.

But what about that Visa or MasterCard hyper-platinum card offer that claims you're "pre-approved?" Pre-approved or not, every card application triggers a credit inquiry that lowers your score.

Expect that your report will contain inaccuracies. Some experts estimate that the percentage of U.S. credit reports that contain mistakes is as high as 95 percent. Correcting mistakes improves scores, sometimes significantly. Your First Security advisor can suggest some efficient ways you can correct those errors.

Make as many as possible of your credit account payments on time or early if you are considering applying for a mortgage.

Pay off some of your debt, especially if you are carrying so much debt that you think you might have a problem meeting a lender's required debt-to-income ratio. Paying off the liabilities with the *largest monthly cost* will help lower your debt/income ratio the most.

In addition, you need to make these payments before the 20th day of any given month if you want your updated credit reports or FICO scores to reflect those payments the following month.

Although the general guidelines above will help many people, they are no substitute for personal guidance from your First Security advisor. Because mortgage professionals see hundreds of FICO scores and credit reports every year, First Security advisors are ideal sources of information about the best steps to improve scores for your particular situation.



NOBODY'S PERFECT: QUALIFYING UNDER CHALLENGING CIRCUMSTANCES

Nobody's perfect. And mortgage professionals, far from perfect themselves, don't expect that every client will have absolutely perfect credit dating back to the Summer of Love.*

Fortunately for borrowers with less-than-perfect credit, credit scores are only one part of a larger picture. Income, for example, appears nowhere on a credit report, but can nevertheless be an important factor in qualifying for a mortgage.

Don't self-select out of the credit market! Every year millions of borrowers are surprised to learn that their FICO scores are more than adequate to obtain a mortgage with good terms. Millions of others learn that their FICO scores have recently improved. Although the best terms may be reserved for applicants with scores of 680 and above (on a 350 to 950 scale), homebuyers with scores as low as 500 can nevertheless find they have perfectly acceptable choices among several mortgage products that will meet their needs.

Keep in mind this important fact: First Security has hundreds of loan programs designed to fit your specific needs. We'll search for a means of providing financing with terms that will work in your situation, even if that requires extra time and some hard work. We've helped *thousands* of Northern California homeowners over the last quarter-century. **We can help you, too!**

* For those of you too young to remember, that's 1967.

When Your Adjustable Rate Mortgage Starts to...Adjust

Millions of homeowners who financed homes a few years ago with Adjustable Rate Mortgages, or ARMs, are beginning to see financial institutions "adjust" their mortgage interest rates.

If you're one of those homeowners, do you have any options besides watching your mortgage payments climb each month? *Of course you do!*

Here are just a few of your refinance options:

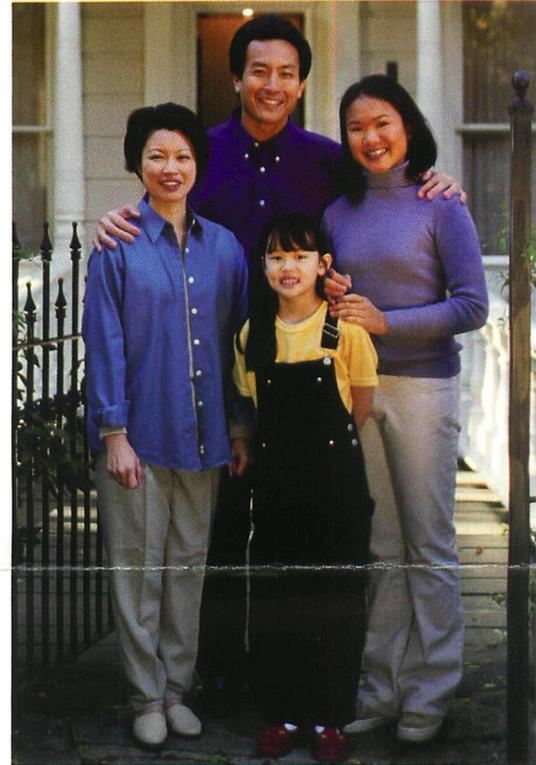
OPTION 1: AN ARM "UPGRADE"

A newer ARM that combines a 5-year initial fixed-rate period *with* a 10-year, interest-only payment option would make sense. This is a new First Security product, unavailable when many homeowners started choosing ARMs about five years ago.

Many homeowners will find this package the best choice overall. Not only does it lock-in an interest rate for another 5 years, but it gives you the flexibility of a reduced, interest-only payment option long after the initial fixed-rate period.

OPTION 2: A 30-YEAR FIXED RATE WITH AN INTEREST-ONLY PAYMENT OPTION

Products like these lock-in payments at lower, long-term interest rates for an extended period. If the interest-only payments are based on the same rate as a standard 30-year mortgage without a payment option, it would be difficult to find a compelling reason to choose the standard mortgage instead.



OPTION 3: A 40-YEAR FIXED RATE MORTGAGE

As we pointed out in the previous issue of *First Security Outlook*, long-term, locked-in rates spread over a longer interval provide significant monthly payment reductions. To summarize, your monthly payment would drop by about \$230 each month by adding 10 years to a typical 30-year mortgage on a home worth \$500,000.

YOUR NEXT STEPS:

If your rate has started to adjust, chances are good that one of these popular products will save you money now. You need to call, email, fax, instant message, or release a carrier pigeon to your First Security advisor right away.

If your rate hasn't begun adjustments, talking with your First Security advisor will nevertheless provide you with late-breaking news about product enhancements and new product options introduced after those presented above. **Don't wait!**





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Twenty-two years of excellence in home financing.

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