"Ask the Pink Realtor"

Hollywood Real Estate Q&A

BY ROCHELLE LE CAVALIER | Ask@pinkpalm.com

Dear Pink Realtor,

After years as a single mother I was lucky enough to find a wonderful man. We are married now and have added to our family and are in need of a bigger house. We really want to buy a property but unfortunately my husband has very little credit and my credit is bad due to being a single mother for years. I have worked my credit score up more than 100 points but still do not qualify for a loan. We both have worked for the same company, me for 10 years and he for seven, and have a combined annual gross income of about $100,000.

We were turned down by our credit union due to credit. We were turned down by national banks due to credit. We then tried a known "bad credit" mortgage lender who told us that while they couldn't approve us now, if we paid them $200 per person they would fix our credit so we could be approved. They would then apply the $400 to any closing costs.

My family is advising us against it, but I feel like we have no other option. Is this just a scam and if so, are there any real companies who work with credit-challenged people?

Sincerely,
Hopefully A Homeowner Again

Dear Hopeful,

Congratulations on how far you have come in improving your credit. An increase of 100 points on your credit score (FICO) is huge. The next item on your agenda is home ownership, and so far credit has been holding you back. You have options, Dear Hopeful One!

While building your credit rating is important, there are other ways to home ownership. Find a trustworthy realtor (ask for references and check them) and ask about owner financing, lease-option (rent-to-own) purchases and other non-traditional means to home ownership. You may ultimately decide to wait until you can buy with a bank loan, but there are many roads to home ownership.

With regard to your question about credit repair services, I offer the following: There is nothing they can do for you that you cannot do yourself.

The Federal Trade Commission (FTC) warns that anyone offering to do something you cannot accomplish (establish a new credit file, erase negative history, etc.) is likely a sign of a scam. There are ethical credit guidance companies out there, but the fact is there's no quick fix for creditworthiness. You can improve your credit report legitimately, but it takes time, a conscious effort and sticking to a personal debt repayment plan. (Read more here: ftc.gov/credit.)

No one can legally remove accurate and timely negative information from a credit report. The law allows you to ask for an investigation of information in your file that you dispute as inaccurate or incomplete. There is no charge for this. Each of the nationwide consumer reporting companies (Equifax, Experian and TransUnion) is required to provide you with a free copy of your credit report once every 12 months, if you ask for it. The three companies have a central website, a toll-free telephone number and a mailing address for consumers to order the free annual credit reports the government entitles them to. To order, go to www.annualcreditreport.com or call 1-877-322-8228.

Under the Fair Credit Reporting Act (FCRA), both the consumer reporting company and the information provider (that is, the person, company or organization that provides information about you to a consumer reporting company) are responsible for correcting inaccurate or incomplete information in your report. To take advantage of all your rights under the FCRA, contact the consumer reporting company and the information provider.

Once you know that your credit report is accurate, you can begin to build your credit rating and score.

There is no easy formula – this will take time and consistency.

The key factors in determining your credit score are (as reported by Bankrate.com):

1. How you pay your bills (35 percent of the score). The most important factor is how you've paid your bills in the past, placing the most emphasis on recent activity. Paying all your bills on time is good. Paying them late on a consistent basis is bad. Having accounts that were sent to collections is worse. Declaring bankruptcy is the worst.

2. Amount of money you owe and the amount of available credit (30 percent). The second most important area is your outstanding debt – how much money you owe on credit cards, car loans, mortgages, home equity lines, etc. Also considered is the total amount of credit you have available.

3. Length of credit history (15 percent). The third factor is the length of your credit history. The longer you've had credit – particularly if it's with the same credit issuers – the more points you get.

4. Mix of credit (10 percent). The best scores will have a mix of both revolving credit, such as credit cards, and installment credit, such as mortgages and car loans. Statistically, consumers with a richer variety of experiences are better credit risks. They know how to handle money.

5. New credit applications (10 percent). The final category is your interest in new credit – how many credit applications you're filling out. The model compensates for people who are rate shopping for the best mortgage or car loan rates. The only time shopping really hurts your score is when you have previous recent credit stumbles, such as late payments or bills sent to collections.

Credit scores are more important in obtaining a home loan than they have been in decades. It is actually historically abnormal to be able to buy a home with less than 20 percent down payment and very good credit. For many families, the best choice is to rent while saving money for a down payment and building a strong credit rating the old fashioned way – slowly over time.

Dear Pink Realtor,

I started looking for a house about six months ago in Hollywood. The market is supposedly really bad and tons of foreclosures are up for sale, but all of the houses I am finding in my price range are in such bad condition, they should be torn down. I have $50,000 cash and cannot find a house! If the market is so bad, why can't I find a decent house? Is this just some more manipulation by the banks?

Sincerely,
Reality Check

Dear Reality,

This is a question some of my clients have been asking lately. The perception that because the economy has been weak and housing prices have declined dramatically over the past few years, houses should be close to free is a popular illusion.

The median price for a home in Florida in 1950 was $40,100; and in 1960 was $58,100 (adjusted to year 2000 dollars, according to the U.S. Census Bureau: www.census.gov). While it is accurate that homes may now be acquired for far less than they were in 2006, and in many cases for less than they cost even in 2000, an expectation of prices to return to those from the 1950s is ridiculous.

One important caveat: Severely distressed real estate can be bought very cheaply right now, and there is more of it than there has been in decades. Banks will sell houses – that have stood vacant for years, are not up to code, not safe to live in, do not qualify for financing of any kind and require professional help to be livable – for less than market value. It has always been the case that you can buy a broken item for far less than a working item. Great – if you can fix it.

I bought a four bedroom house in Hollywood for less than $50,000 last year, but it required an additional $40,000 in improvements to be livable that could not be done by an average weekend handyman. Rehabilitation of real estate is no small chore and should not be undertaken lightly.

If you compare "apples to apples" in the Hollywood real estate market, then you will find that, as with most things in life, you get roughly what you pay for. A house in perfect move-in condition, with a new kitchen, upgraded bathrooms, new roof with warranty, impact windows and lush landscaping, will cost about the same amount as a house in terrible condition plus the cost of a full remodel.

LeCavalier has an extensive background in land development, construction, mortgage banking, and real estate sales, marketing and management with more than 15 years experience in the industry. She is known as the "Pink Realtor" around South Florida where she and her team cheerfully serve the real estate needs of many clients. In addition, LeCavalier serves as Fund Manager for SISCO Limited Partners, a private equity fund that rehabilitates foreclosed properties and rents them via affordable housing programs in Broward County, and she is a licensed Real Estate Agent and an Accredited Residential Manager (IREM, ARM).

For more information, visit www.pinkpalm.com.