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Financial Briefs

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Understanding and Improving Your Credit Score

Your credit score has a huge impact on some of the biggest aspects of your adult life. You'll likely need a decent score if you want to rent, lease or finance a car, open a credit card account, and of course, buy a home. Even potential employers can check your credit to screen applicants who may be a theft or fraud risk to their company. Your credit score is incredibly important, and neglecting to improve it can result in low scores that lead to high interest rates and, thus, cost you more money. To avoid making costly mistakes that harm your credit, you first have to understand how it works.

When lenders and credit issuers evaluate an application, they usually want both your credit report and credit score. The score is a mathematical calculation based on the information found on your credit report. The score represents how much of a credit risk you may be to lenders. You have probably heard your credit score referred to as your FICO score, because the software used to calculate it was developed by Fair, Isaac, and Company, or FICO. All the major credit reporting companies use FICO scores but sometimes different sets of information on their reports. FICO scores range from 300 (the highest risk) to 850 (the lowest risk), and that score depends on many factors. The major factors are the following:

- **Bill payment history.** If you consistently pay your bills on time, that will be reflected in a higher, less-risky score. But if you've been late in payments, had debt sent to collections, filed for bankruptcy, etc., that will factor into a lower, higher-risk score.
- **Your outstanding debt.** This is your total debt, including mortgage, car loans, student loans, credit cards, home-equity lines of credit, and any other type of loan reported to a credit agency. And while it may seem like lower balances will always result in better

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How Much Is Too Much to Pay for a House?

There are a few situations in life when it seems like money should be no object: weddings, birthdays…and purchasing a dream home. But in reality, a house is generally the largest investment people make over the course of their lifetime; and there is real financial danger to being blind to important factors when looking at a beautiful home. Before you let yourself fall in love with the house you're considering, think about the location, comparable houses, area trends, and a realistic budget to see if it's worth the asking price.

Location, location, location. You fall in love with the house itself, but much of its value has more to do with where it is than the high-end finishes inside. Ask yourself the following questions:

- How attractive is the area?
- How easy is it to get around?
- What is the crime rate?
- How are the schools?

This is also where the "Buy the worst house on the block" adage comes in. It's not that you must buy an ugly house, but recognize the house can change, but the location won't. So you may as well get a bargain in a great location instead of paying for a premium house.

Sometimes a location that seems unappealing is actually undergoing positive change. Consider current trends in the neighborhood (you may need the help of a real estate professional) to try to determine how much value the property will hold. Ask yourself the following questions, for starters:

- Are young, upwardly mobile families starting to move into

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Credit Score

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scores, a very important factor is how much available credit you don't use. Those who use credit sparingly — about 10% of what they have available and no more than 30% — will have the highest credit scores.

- **How long you've had a credit history.** The longer you have had and used credit (responsibly), the higher your score. Even better is if you have established long-term credit with the same set of lenders. College graduates will find themselves with a silver lining to all those student loans: they have been building a credit history, even if they've never touched a credit card.
- **Different types of credit.** If you have a mix of fixed-payment loans and revolving credit (like a credit card), you will have a higher score to reflect the variety of credit.
- **Hard credit pulls.** If you have applied for credit several times in a short period of time, it will signal to lenders that you may be a risky option. This risk results in a lower FICO score. However, multiple applications for a specific type of credit in a short time frame (such as rate shopping for a mortgage lender) does not have the same negative effect.

Now that you know what your credit score is based on, it is easier to understand why those factors are important to lenders. Applicants with credit scores of 720 and higher receive the best deals when it comes to interest rates. If your score is below that, there are ways to improve it:

- Review your credit report to stay updated and catch any mistakes. Your score is based on information on your credit report, so any errors on the report could be costly for you even if you actually have a good credit history. Get copies of your report from the three main reporting agencies (Experian, TransUnion, and Equifax) and check each for mistakes. You are entitled to one free report from each company every year.
- Pay your bills on time. Check to see if your credit report shows any late notices. If you have an otherwise good credit rating, you might be able to get the lender to remove the notice.
- Reduce your credit utilization rate. Your score is higher when your debt is lower as a percentage of your available credit. Pay down whatever you can and stop using credit for large purchases. If you cannot pay it down right away, ask your lender to increase your available credit. This way your outstanding debt will be a lower percentage of available credit...but you will need to resist the temptation to draw on any of that newly available credit. Make sure you never use more than 50% of available credit.
- Keep credit card accounts open. This may seem counterintuitive, because once you've paid off a balance you probably want the satisfaction of closing it out. But when you close the account, you no longer have that available credit to count toward your utilization percentage. If you have more than five credit cards, close the newest ones so your long-term credit relationship stays in the report.
- Consider installment loans if you only have revolving credit. Fixed-payment loans like a car loan or mortgage will increase the variety of credit in your report, and you will be rewarded in your FICO score.
- Avoid asking for more credit as much as possible. Inquiries about more debt will show up in your credit file like hard pulls and will lower your credit score.

Do You Have Too Much Debt?

Various rules of thumb exist to help determine when debt levels are excessive. For instance, one states your total debt payments including your mortgage and credit card bills should not exceed 36% of your gross monthly income. The problem with rules of thumb, however, is they don't take into account your unique circumstances. Look for these signs that your debt level may be getting too high:

- **You have no money left over at the end of the month.** If you have nothing left to save after paying your bills every month, your debt may be too high. Be especially concerned if you have to dip into savings to pay bills.
- **You've reached your maximum credit limit.** If you've maxed out your credit card limits or are considering obtaining new ones for additional credit, your debt may be getting out of hand. Credit cards should be used as a convenience, not to finance an unaffordable lifestyle.
- **You're only making minimum payments.** Minimum payments on credit card debt are so low that it can take decades to pay it off. It will be difficult to get your debt under control if you are only making minimum payments.
- **You don't have an emergency fund.** Ideally, you should set aside three to six months worth of living expenses in case of emergencies, such as a job loss or major home or car repair. If you can't maintain that due to debt payments, your debt level is probably too high.
- **You're not comfortable.** The ultimate test of whether your debt level is too high is your comfort with it and the payments that must be made.

If your debt level is too high, take steps now to get it under control. Please call if you'd like help with your debt.

Pay for a House?

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the area?

- Are new roads being built or existing highways being expanded?
- How is the economy? Consider the national, regional, and local confidence in the economy.
- Is it a buyer's market with too much supply and not enough demand driving prices down or a seller's market that may result in aggressive bidding wars over most properties?

If you've determined the house is in the location that is best for you, you still need to figure out if the dollar amount per square foot is reasonable. What are comparable houses selling for? A good real estate agent who is familiar with the neighborhood can help you figure out if the house is overpriced for the area by checking recently sold homes with similar square footage and features.

It can be difficult to determine the accurate and future value of a home, but it's a bit easier to figure how much you can afford to pay for a house. Your lender will set a ceiling for you by determining how much they will approve for you to borrow based on your income-to-debt ratio and other financial risk factors. But just because you may be approved for a large amount does not mean you should spend it. Consider how those mortgage payments will factor in with everyday expenses and your lifestyle, and don't forget you will need an emergency fund for costly home repairs. Before you fall in love with a house you may not be able to afford, set a budget that works for your circumstances and house shop in that range.

Nowadays with sites like Zillow and Realtor.com, it can be hard to only look within your means. Scrolling through listings on your couch is much easier than going out to tour each one with your agent, and the pricey homes tend to have lovely photographs. So don't underestimate the pull of a seemingly perfect but over-budget home. HGTV shows are as popular as they are for this very reason: we love beautifully designed (and expensive) houses. If you find yourself having a hard time resisting the premium priced house, consider your overall financial objectives.

If you buy the most expensive house you can get, will that stall your savings for your children's educations or delay your retirement? Are you wiping out your savings to make a massive down payment? Keep in mind you can always stay a few years to build up equity and then sell up...or make enough changes to a house to turn it into your dream home. A financially practical, comfortable house will always beat out a mansion that leaves you house-poor.

Please feel free to call if you would like to discuss this topic in greater detail.

How Mortgage Appraisals Work

Once you have a contract to purchase a home or if you are refinancing your existing home, lenders will order an appraisal of the property. An appraisal is simply an unbiased professional opinion of what the home is worth.

When a lender gives you a mortgage, the home serves as the collateral for the loan. If the mortgage goes into foreclosure, the lender will sell the house to recoup the money. The appraisal provides assurance to the lender that the loan is reasonable.

The Appraisal Process

All 50 states require that appraisers be licensed and familiar with the area in which they are conducting appraisals. Federal regulations also require appraisers to be impartial and have no direct or indirect interest in the property.

Most appraisers use the Uniform Residential Appraisal Report from Fannie Mae. Appraisers do a thorough inspection of the interior and exterior of a home. They document the number of bedrooms and bathrooms, other home amenities, and square footage. They will also look for any conditions that would negatively impact the value of the home.

Appraisers also look at sales of other homes in the same area and compare values to the home they are inspecting. The appraiser then provides a complete report, which must include:

- A street map showing the location of the property
- An explanation of the calculation of the square footage
- A sketch of the home's exterior
- Photographs of the front, back, and street view of the home
- Copies of comparable sales used
- Other documentation, including market sales data, public land records, and public tax records

Most appraisals cost several hundred dollars and are typically paid for by the purchaser.

The Appraised Value

If the appraised value of the home is at or above the agreed-upon purchase price, you will be on your way toward the closing. However, if it is valued below the contract price, the whole deal can go sideways. Typically, the lender will approve a mortgage with a loan-to-value (LTV) ratio of 80%, meaning they will lend you up to 80% of the home's value. In this situation, the buyer has the advantage of negotiating a lower price on the house, or the seller may decide to walk away from the deal.

If you are refinancing a home, you may not be able to if the appraisal is lower than the amount you want to refinance.

Business Data

Indicator	Jun-18	Jul-18	Aug-18	Dec-17	Aug-17
	Month-end				
Prime rate	5.00	5.00	5.00	4.50	4.25
3-month T-bill yield	1.90	2.00	2.08	1.45	1.02
10-year T-note yield	2.91	2.86	2.83	2.46	2.22
20-year T-bond yield	2.97	2.92	2.91	2.66	2.57
Dow Jones Corp.	3.94	3.93	3.84	3.13	2.95
GDP (adj. annual rate)#	+2.90	+2.20	+4.20	+2.90	+3.10

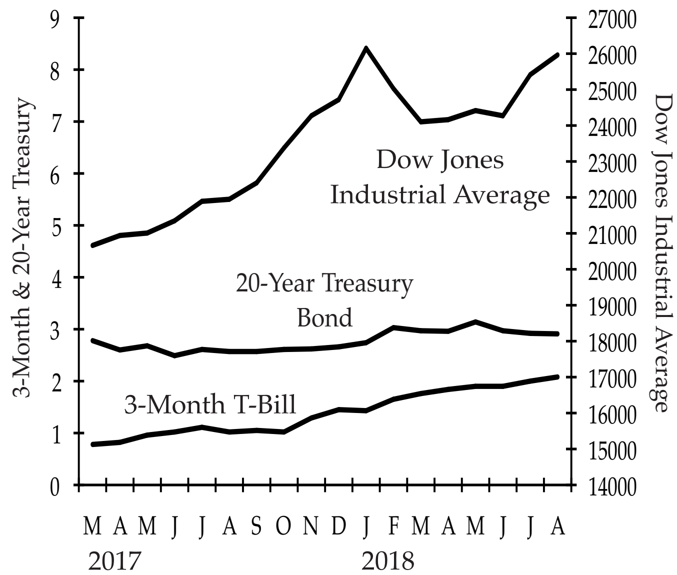
Indicator	Month-end			% Change	
	Jun-18	Jul-18	Aug-18	YTD	12-Mon.
Dow Jones Industrials	24271.41	25415.19	25964.82	5.0%	18.3%
Standard & Poor's 500	2718.37	2816.29	2901.52	8.5%	17.4%
Nasdaq Composite	7510.30	7671.79	8109.54	17.5%	26.1%
Gold	1250.45	1220.95	1202.45	-7.3%	-8.3%
Unemployment rate@	3.80	4.00	3.90	-4.9%	-9.3%
Consumer price index@	251.60	252.00	252.00	2.1%	2.9%
Index of leading ind.@	109.30	110.00	110.70	4.0%	6.4%

— 4th, 1st, 2nd quarter @ — May, Jun, Jul Sources: *Barron's, Wall Street Journal*

Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

March 2017 to August 2018



News and Announcements

Credit Issues as You Age

While obtaining credit can be just as important for older individuals as it is for younger ones, the elderly often have unique credit issues. For instance, waiting until after retirement to apply for a loan can result in the loan being rejected because income is much lower. Also, if one spouse dies, sometimes the surviving spouse may find that lenders want to close accounts or he/she may not have sufficient credit history to apply for credit on his/her own.

To help ensure you don't have credit problems as you age, consider these tips:

- **Apply for major loans while you are still working.** If you are getting close to retirement and know you'll need a loan, perhaps for a retirement home or new car, apply for credit a few years before retirement.
- **Make sure credit cards are obtained as joint accounts.** If you have an individual account with your spouse listed as an authorized user, lenders can close the account if you die. However, if it is a joint account, the creditor cannot automatically close the account or change its terms. The lender may require your spouse to update the application if it suspects he/she does not have adequate income for the credit limit.
- **Ensure that both you and your spouse have good credit histories.** Review your credit reports, ensuring that all information is accurate and you both have sufficient history. That way, either of you will be able to obtain credit if the other dies.
- **If you are denied credit, find out why.** It could have been an error, or you may convince the lender to consider other information. You may also be able to negotiate a compromise with the lender. For instance, if the lender is concerned about your age when considering a 30-year mortgage, perhaps a 15-year mortgage would be acceptable.

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