

How Do Credit Scores Affect Mortgage Interest Rates?

Your FICO credit score is the single most important factor when it comes to determining both your mortgage interest rate and how much home you can buy. A low credit score can increase your mortgage interest rate and your mortgage insurance cost as the result of a government program based on "risk-based pricing."

Don't Be Fooled by 1% Listing Commission Offers

The commissions charged in real estate transactions can confuse buyers and sellers. Allow me to explain how it all works, in case you're not clear about it.

Typically, the buyer's agent — also known as the "selling agent" because he/she **sells** the home — is paid by the listing agent, not the seller. The seller signs a listing agreement for a total commission amount — which might range from 4 to 7 percent — and agrees to pay a portion of that commission to the broker who sells your home. That's referred to as the "co-op commission" because the selling agent is the "co-operating agent." Regardless of the total commission charged, it is common in the Denver market for the listing agent to offer 2.8% as the co-op commission, which is specified in the listing agreement.

Long before I became a Realtor, the Justice Department ruled that listing commissions are subject to the Sherman Anti-trust Act. Prior to that, the Denver Board of Realtors, I've been told, decreed that listing commissions should be 7%, and buyer's agents should receive 40% of that listing commission, which computes to 2.8%. Since that Justice Department edict, it is illegal for us to refer to any percentage as a "standard" listing commission. The co-op commission, I'm told, is not subject to that rule, so it's okay for me to say that the co-op commission is "typically" 2.8% and for our office policy manual to say that all agents shall offer a 2.8% co-op. Even as listing commissions dropped under competitive pressure, listing agents have been reluctant to reduce the co-op commission out of fear that agents would not show and sell their listings. (I tried offering 2.5% a few years ago, and went back to 2.8% after realizing this was true.)

Some discount brokerages will seek to get listings by advertising 1% or a flat fee such as \$1,200 as the "listing" commission. The fine print, however, will note that this does not include the co-op commission, which will be another 2.8% — which you'd be wise to agree to. The listing agent may suggest that you offer a smaller co-op commission, such as a flat \$3,000, but you may find yourself agreeing to increase the co-op to 2.8% after a week or two with few showings and no offers.

Perhaps you, like me, have learned that you get what you pay for in life. That is true, for sure, with Golden Real Estate. Yes, we charge more, but sellers get more in services and benefits with our higher but below-average commission fees.

I welcome your questions and comments. Feel free to call me or email me.

Officially, it's known as the Loan-Level Pricing Adjustment (LLPA) program, implemented in 2010.

Under this program a fee is assessed on conventional (not FHA or VA) mortgage loans with credit scores under 740 and down payments under 10%. Loans for borrowers with lower credit scores and smaller down payments are assessed higher fees, resulting in higher interest rates. FHA and VA loans have more level rates but higher fees.

The calculation of that fee and how much it increases your interest rate happens behind the scenes. As a borrower, you're only told what your interest rate is, not how the lender arrived at it.

Every 20-point reduction in credit score can increase your monthly mortgage interest expense **and** significantly increase the monthly cost of private mortgage insurance (PMI).

The chart above shows the increased cost of a 30-year \$400,000 mortgage with a 5% down payment, when the buyer has less than a 740 credit score.

Score	Rate Increase	Prin & Int. Increase	PMI Increase	Total Increase
700-719	0.125	\$ 29	\$ 100	\$ 129
680-699	0.25	\$ 59	\$ 157	\$ 216
660-679	0.375	\$ 89	\$ 283	\$ 372
640-659	0.5	\$ 119	\$ 310	\$ 429
620-639	0.625	\$ 149	\$ 346	\$ 495

Web-based loan calculators don't factor in your credit score, so you'd be smart to speak with a loan officer such as **Bruce Gustafson** of Universal Lending Corp., who advised me as I did my research for this column. You can reach him at **303-596-0780**. Bruce is an expert in the process of increasing your credit score to lower your rate. You should never seek out a "credit repair" company for this process. Bruce and other loan officers trained in raising credit scores don't charge for their service because they're working to qualify you for a loan, which is where they make their money. Also, credit repair counselors typically work on settling your debts for less than what you owe, but Bruce warns that paying off an older collection (e.g., medical or cell phone) can serve to refresh negative data and actually lower your credit score.

Environmental Film Festival Opens Today

Every February, Golden Real Estate is happy to co-sponsor the Colorado Environmental Film Festival (CEFF), which is held at the **American Mountaineering Center** in downtown Golden. It opens this evening with free screenings and the award ceremony..

Over the following two days, Feb. 24-25, you can buy a pass to see any of 16 feature films, 29 short films, and four youth films. The festival website, www.CEFF.net, gives the title, synopsis and length of each film, and when each of them will be screened.

Some feature films that caught my attention include the following: **A Plastic Ocean** (1:40); **Between Earth and Sky: Climate Change on the Last Frontier** [about Alaska] (1:20); **Shifting Sands on the Path to Sustainability** (0:57); **We the People 2.0** [about citizen activism] (1:29); and **Poisoning Paradise** [about Hawaii] (0:40). Pierce Brosnan was executive producer of the Hawaii film and will be present at the screening along with the directors and will participate in a



COLORADO Environmental Film Festival

question and answer session afterwards.

I'm hoping to catch the following short films, too: **Change for Chimps** (0:04); **From Flint: Voices of a Poisoned City** (0:23); **The Private Lives of Salmon** (0:05); **Tree Huggers** [about old growth forestry] (0:10); **Tropical Birds Confront Warming** (0:04); and **Whale Talk** (0:06).

Tickets for Friday and Saturday are \$18, or \$36 for both days, which includes the wrap party on Saturday evening.

Between screenings you'll want to visit the **Call2Action Eco-Expo** in the conference center, featuring "solutions-based organizations focused on environmental issues." **Golden Real Estate** will have one of the 28 exhibitor booths. I'll be there (when I'm not in a screening) offering free rides in my Tesla and answering questions about electric cars.



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