How Do We Help Millennials Prepare For Successful Real Estate Purchases?

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By Tracy Becker

A recent survey found that even though millennials, Americans younger than 34, navigate technology and social media with ease, they lag behind older generations when it comes to knowledge about credit.

The study this month by VantageScore Solutions and the Consumer Federation of America found that about half of millennials had never pulled a copy of their free annual credit report. In contrast, about 80% of older adults use the reports to learn about their credit.

The results of the survey are a shock, since millennials — future homebuyers and mortgage applicants — who don't know what is on their credit profile are less likely to be curious about how credit works. The survey also found that many millennials don't know what kind of information is posted on credit profiles or how scores are calculated.

This tech-savvy generation apparently isn't aware that credit reports can be ordered online for free, and that checking these reports can have a positive impact. In fact, people in the survey had much more knowledge about credit if they had reviewed their reports — even more so than people who knew their credit scores.

Millennials also had a lot of misconceptions about credit scoring, too. Many believed age played a major role in credit scores, and some were under the impression that the government keeps track of their credit. The majority didn't realize the big impact credit has, and only 15% were aware of the consequences bad credit has on approvals and pricing for car loans/leases, mortgages, credit cards, and more.

Meanwhile, a separate study by the National Association of Realtors this year found that 8 in 10 "recent buyers considered their home purchase a good financial investment, ranging from 87% for buyers age 33 and younger, to 74% for buyers 68 and older."

The millennial generation is now entering the age when people typically buy a first home, said Lawrence Yun, the chief economist and senior vice president of research at the National Association of Realtors.

"Given that millennials are the largest generation in history after the baby boomers, it means there is a potential for strong underlying demand. Moreover, their aspiration and the long-term investment aspect to owning a home remain solid among young people," he said. "However, the challenges of tight credit, limited inventory, eroding affordability and high debt loads have limited the capacity of young people to own."

How can financial advisors help millennials?

First, advisors can send information specifically for millennials to current, potential and past clients. This information will be valuable and it also will help millennials financially.

Here are some tips on credit scores to share with millennials:

Order your free Experian, TransUnion and Equifax credit reports once a year at www.annualcreditreport.com to learn what is on your credit reports.

Scores offered for sale on the www.annualcreditreport.com site aren't the same as FICO scores. FICO scores are used by most lenders to evaluate a borrower's ability to pay back loans.

You can purchase FICO scores at www.myfico.com.

Late payments for a credit card, car loan or lease, student loan, store card, mortgage or overdraft protection can hurt your credit scores by hundreds of points, no matter how small the amount owed.

If you start building credit when you are young, you will add many points to your scores as the credit ages.

FICO scores over 680 could save $100,000 or more over the life of a mortgage depending on the size and kind of mortgage. A 740 FICO score or higher is considered excellent credit.

Credit scores take time to build and improve, so it is extremely important to start early.

Co-signing or signing for a friend or family member's cell phone, credit card or loan can do lasting damage to your credit scores. If you are not in control of making the payments you are vulnerable to damage to your credit scores which could impact you for years to come and hurt your ability to get loans.

Becoming an authorized user on an old credit card for a parent or trusted friend, who has an excellent paying history, can add points to your scores as it increases the average age of credit. But be careful not to add your name to maxed out cards.

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