# Letter of Explanation for Credit Issues

Borrowers are often prompted to write a letter explaining the reasons for credit default. You can use our sample letter as a guide if you asked to write such a letter.

Dear Sir or Madam,

This letter provides explanations for each negative item on my credit report that you will receive as part of my mortgage application.

1. Late payments dated 12/13 and 01/14 concerning current BECU Credit Union (Auto loan) – $845

In December, I had the option to “skip-a-payment” for the month, which is a courtesy offered to me by my credit union during the holidays. I did this and assumed that everything would be okay.  My request ended up not going through, so I received a late payment for December. When I submitted a payment for January, they applied it to December and then I was charged a late fee for January. Once I realized what was happening, I called my credit union and informed them of the mistake but the damage had still been done.

2. Medical Collection – BECU Collection Agency 11/12 – $976.71

This bill came from an unplanned emergency room visit when my husband broke his leg. We never received a bill from the emergency room and therefore incorrectly assumed that the bill had been paid by our health insurance. What really happened is that the bill had been sent to our old apartment address and we never received it. By the time our mail forwarded from our old apartment to our new apartment, we already had had the bill sent to a collection agency.

3. Late payment dated 01/12 concerning current BECU Credit Union (Business loan) balance $5,679

My husband and I took out a business loan in 2011 to start a restaurant. In December 2011, a competitor opened a store across the street and we lost 75% of our business. Ultimately, our business ended up failing and we were unable to make a payment on time because we had been struggling to keep up with overhead costs. We are still paying off the remnants of that business loan, but with our new high-paying jobs, it should be paid off within the year.

4. Multiple credit inquiries

When my husband and I first graduated from college, we signed up for a large number of credit cards mainly due to all the benefits we would receive from them (e.g. free airline tickets, discounts at department stores, et cetera). At the time, we did not know that this would adversely affect our credit score. We learned about the negative consequences when pulling our credit score for personal knowledge. We now only have two credit cards that we use for personal reasons, and we don’t accept any other credit card offers.

In conclusion

While our credit score is less than admirable, we have learned a lot and have taken several proactive measures to start increasing our credit score immediately. We have enough income to pay off our remaining debts in less than one year. We also have set up all our bill payments on Auto Pay and have a calendar that reminds us of loan payment due dates.

We have never had a late payment or issue associated with paying rent or housing. We know that having a mortgage is a huge responsibility and would honor it as such. We do understand that you might find us to be at risk because of our credit score and the current state of the economy, but because of our stable, high-paying jobs and learned responsibility, we are confident that we can comfortably pay a monthly mortgage, even with a higher interest rate.

We hope you take this letter into account when considering our mortgage application. You will be glad you agreed to finance us.

Best,

## Mr.& Mrs. Johnson