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# Your Credit Score

## How Much is Your Score Costing You.....

## How Much Could it Save You?

*From the price you pay for a new car, insurance for your car and home to the rate you receive on a mortgage loan, they are all based on your credit score. The tightening in lending practices make maintaining your credit score more important than ever before. Here are some tips to maintain and improve your credit score.*

### Risk Based Pricing

Fannie Mae/ Freddie Mac control the guidelines and therefore the access to most residential loan funds. With the shake up in the financial markets, they have implemented a new pricing model known as *Risk Based Pricing*. The model determines the mortgage rate and fees based on each borrower's credit score.

**Now lower scoring borrowers will pay a premium for their mortgage in both rate and fee. The best rate and fee structures are available only to higher scoring borrowers.**

Lenders have also added nearly 70 criteria that must be reviewed in order to determine the ACTUAL rate a buyer qualifies for. These criteria vary based on type of loan. i.e. Fixed, Interest Only, FHA, Jumbo.

**It's vital to understand the factors involved in calculating your score.**

**Here are the five elements that make up a credit score, in order of importance:**

### Payment History: 35% Impact.

Paying debt on time and in full has a positive impact. Late payments, judgments, and charge-offs have a negative impact. Missing a high payment has a more serious impact than missing a low payment. Delinquencies that have occurred in the last two years carry more weight than older items.

When applying for a mortgage, every point in your credit score can make a difference. So don't make any major financial or credit decisions – even paying off an old debt or delinquency – without discussing it with your mortgage professional.

### Outstanding Credit Balances: 30% impact.

This factor marks the ratio between the outstanding balance and available credit. Ideally, consumers should make an effort to keep balances as close to zero as possible, and definitely below 30% of the available credit limit when trying to purchase a home.

### Credit History: 15% impact.

This marks the length of time since a particular credit line was established. A seasoned borrower is stronger in this area.

### Type of Credit: 10% impact.

A mix of auto loans, credit cards, and mortgages is more positive than a concentration of debt from credit cards alone.

### Inquiries: 10% impact.

This quantifies the number of inquiries (or requests for credit) that have been made on a consumer's credit history within a six month period. Each individual inquiry can cost from 2 to 50 points on a credit score, but the maximum number of inquiries that will reduce the score is 10. In other words, don't start the loan process until you're ready to act. Otherwise each individual credit inquiry could cost you. However, scoring models have now been adjusted to count multiple "hard" inquiries within a 14-day period as a single request. So, when you're ready, your credit will be too.

### Rebuilding Credit

It's true, negative credit items can remain on your credit report for up to 7 years (up to 10 years for a bankruptcy). But this doesn't mean that you have to wait 7 to 10 years to begin reestablishing a good credit rating. Because credit scoring models typically lend more weight to your recent activity than to the mistakes you might've made in the past. You can change your habits right now and begin reestablishing yourself as a good credit risk for a home loan or mortgage refinance in just 6 to 12 months.

**The following are a few Dos and Don'ts when it comes to rebuilding your credit:**

1) **DON'T** apply for, close, or pay off any credit cards, loans, or other kinds of credit without speaking to your mortgage professional first. Any one of these actions, as innocent as they might seem, could seriously affect your credit score, adding significant costs to your mortgage should your score suddenly drop.

2) **DO** use credit 'strategically'. Too little credit use can actually lower scores. A good credit profile should include at least 5 open active trade lines. (i.e. Mortgage Payments, Installment Loans, Revolving Accounts etc..) **Be sure to use Revolving Accounts conservatively.** To **maintain** scores use less than 50% of the credit limit available. To **improve** scores, use less than 30%. Creditors like to see evidence of credit use. It must be conservative and fall within the guidelines outlined here to optimize your score.

3) If you don't have a credit card, **DO get a secured credit card.** This is a great way to rebuild or establish credit quickly. Because this account is secured by funds that you deposit (typically between \$100 and \$400) you're not seen as a great risk to the card issuer because of your initial investment. Again, use this card strategically to build a strong credit history. Pay your bill on time every month, and it won't be long before you qualify for an unsecured credit account.

4) Finally, **AVOID** being turned over to "collection" at all costs! If you are disputing a bill and are notified you are being turned over for collection, **PAY IT, THEN FIGHT IT.** Next to a bankruptcy, collections and judgments will cause you the highest reduction in credit score.

*If you or anyone you know has any questions about credit scores or what can be done to repair/improve them, please don't hesitate to call.*

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