



Quick Tips to Boost Your Credit Score



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Your credit score directly impacts your buying and saving power from the interest rate available to you on a home mortgage or credit card to your insurance rates. It is a measure of you personally as a credit risk based on your use, misuse, and even non-use of credit.

Can I Save Money With a Higher Credit Score?

Absolutely. The rate you pay for borrowing money is a direct factor of the likelihood you will pay it back. RISK. Your credit score is a summary of a multitude of factors that label the risk you represent to a potential lender. Insurance companies assess risk in the same manner and charge you "non-preferred" rates for a lower credit score.

How is Credit Score Determined?

A mathematical model weights your credit information and generates a score.

Credit Score Components are as follows in order according to how heavily they are weighted in your score:

- 1) Payment History
- 2) Balances Carried
- 3) Credit History
- 4) Mix of accounts
- 5) Inquiries

Payment History - your track record for paying your bills ON TIME.

Ideally you pay all bills on time, but if you must choose, focus on your largest balances especially mortgage loans.

Balances Carried - This is a measure of balances carried as a percentage of the total credit limit available.

Balances should remain no higher than 50% of your credit limit. To improve your score maintain a balance of 30% or less to your total limit. If you have multiple lines of credit, spread your balances out to avoid exceeding the 50% mark. If you have a single credit line, look at acquiring more.

Multiple lines at lower balances with timely payment drive a higher score than a single line maxed out.

Credit History - the longer the account has been open, the higher the credit score. This assumes timely payment.

Mix of Accounts - a combination of installment and revolving accounts optimizes your credit score.

Installment Accounts: Fixed payment accounts i.e. Mortgage Loans and Car Payments. Have 2 installment accounts and pay them on time.

Revolving Accounts: Credit cards or other accounts with variable payments, have 3 to 5. Included in this mix are Equity Lines of Credit (HELOC) under \$40K. If the line exceeds \$40K it is typically categorized as mortgage debt and is considered an installment account. Max out a HELOC and it will negatively impact your score.

Inquiries - this has the least impact on your score, and done properly, almost no impact. For example, all credit inquiries for a car loan or a mortgage loan pulled within a 45 day period, count as only one inquiry. If you have applied with one mortgage company and switch to another or seek a car loan, these individual inquiries will only count as ONE if within 45 days of each other. Each inquiry averages about a 5 point hit.

Can I Change my Credit Score?

You can change it by paying attention to the following tips on credit use. You can manage it by periodically (approx every 6 months) monitoring your credit to check for and correct blemishes.

These simple steps can improve your score by as much 100 points.

- If you discover past due accounts on your credit report, pay as soon as possible. Consult your Mortgage Professional prior to paying any Judgments or Collections if you are applying for a home loan. It may be beneficial to your score to pay them in closing.

- Contact creditors and request to have any erroneous late payments removed from your report. Seek the advice of your Mortgage Professional if you are unsure how to proceed with this step.
- Increasing your credit limits can increase your score. Request the increase based on your payment history if possible. (No credit inquiry required)
- If you have limited credit history, consider obtaining a secured credit card from your Bank or Credit Union.
- Use your credit. Accounts with zero balances do not improve your scores. Active accounts used as outlined in the Mix of Accounts section with balances under 30%, *build your score.*

The Counterintuitive Facts

- Borrow money when you don't need it. In times of need, you may appear as a risk and creditors may not lend to you.
- Limited or No use of credit can be detrimental to your score. Instead keep the balance limit ratio low, and USE your credit. If you cease to use credit, even responsibly, your history begins to diminish.
- Removal of late payments doesn't instantly increase your score. Once removed, get a rescoring to hike it up.
- Paying off a judgment or collection just prior to applying for a mortgage loan can lower your score.
- Most importantly, increasing your credit score even slightly, can bump you into a new category, potentially qualifying you for lower interest rates, lower insurance premiums, and an improved lifestyle!

For additional questions on improving credit scores. Contact our office.