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## UNDERSTANDING AND IMPROVING YOUR CREDIT SCORE

The credit score is a computer generated mathematical score, ranging from 350 to 850. To get a mortgage you need a score over 600; to get the best rate you need a score over 740.

People always assume that if they pay their bills on time they will have a high score. There is a lot more to it than that. Here are the key components that make up your score.

**Payment History: 35% Impact**. Paying the total amount due on time has a positive impact. Late payments, charge offs, judgments, collection accounts have a negative affect. Credit Reports impact more than loans and credit cards. Your credit score is most impacted by delinquencies in the past twelve to twenty four months. One late in the past twelve months on your mortgage payment can drop your score up to 100 points.

**Outstanding Credit Balances: 30% Impact.** This is the ratio marking the difference between the credit limit and the balance on a credit card account. The balance should be 30% of the credit limit on each card. The balance that shows on your bill is the balance that is used in this calculation. This factor is the primary reason most people have lower scores than they expect. Many people say that they pay off their total balance each month. The computer sees the balance on your bill. If your credit limit is $2000 on a card and your balance is $1900 you will take a hard hit on your score, even though you paid in full. If you can't pay down your balance to 30% ask the creditor to increase your credit limit to bring the ratio in line. Do not spend any more on that account.

**Credit History: 15% Impact.** This marks the length of time since a particular line of credit was established. The computer looks for accounts to be 2 years old or older. If you have an old account and pay it off, don't close it. Keep it open and every now and then make a small purchase on it. Closing an account with a long, strong history will drop your score.

**Type of Credit: 10% Impact.** A mix of auto loans, credit cards and mortgages is more positive than credit cards alone. The number of credit cards is also considered, 3 or 4 active accounts is optimum.

**Inquiries: 10% Impact.** This quantifies the number of inquiries made on a consumer's credit report within a six month period. It can impact your score from 2 – 10 points. If you are looking for a mortgage or a car your score will not be impacted if several mortgage companies or car companies check your credit. Your score is only impacted for ninety days. If **you** pull your credit directly from the credit bureau, it can be as much as 60 points higher than when the bank pulls it, because a different formula is used.

When applying for a mortgage they want you to have 3-4 accounts on your credit report that are two years old and have a clean payment history.

Remember it is a computer calculating this score. No personal factors are considered. It is just today's snapshot of your credit. When you apply for credit, usually a tri-merge report is pulled. The middle score is used. If you are going to be looking for a home, or other financing, it helps to talk to a loan officer at the beginning of the process, not just to see what amount you will qualify for, but so you can see your credit report and find out how to improve your score so when you apply for a mortgage you will get the best rate.

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