

Improving Your Credit Score

As Certified Mortgage Planning Specialists™, we are committed, qualified and equipped to help you improve your credit rating.

Your credit scores is one factor in determining the price you pay for your money (your mortgages, your auto loans and leases, your credit cards, business loans, etc.).

Credit scores range from 350 to 850, with 850 being the best possible credit score and 350 being the worst possible credit score.

The Five Factors That Determine Your Score:

1. Payment History (35% impact on credit score)

Paying debt on time and in full is very important. Late payments, judgments, charge-offs, collection accounts and bankruptcies have a negative impact.

One of the most important issues is whether you have had late payments in the last 12 months. Timely mortgage payments are weighted heavily by the scoring systems and are one of the most vital requirements when evaluating your credit history. Payment history on other debts (car payments, credit cards, etc.) is also given a lot of weight. The credit scoring systems evaluate how many lates you have had, whether they were 30, 60 or 90 days late, or whether they are currently in default, with default being the worst situation. The systems also look at whether the late payments were consecutive.

Bankruptcies and judgments are also important. If you have had a bankruptcy within the last 7 years, it will seriously affect your ability to borrow or establish new credit. If you have had any judgments within the last few years, it is very important that you pay them off and get a "satisfaction of judgment" from the court. Any unsatisfied or recent judgments will make a bad dent in your credit scores and adversely affect your ability to borrow. Usually, **judgments and liens must be paid prior to closing** although sometimes they can be paid out of loan proceeds.

Four Areas That Can Help Improve Your Score Regarding Payment:

1. Make all your payments on time.
2. Bring your delinquent accounts current immediately.
3. Pay your bills before they go to collection.
4. Check your credit report regularly and make sure disputed bills are handled quickly.

2. Balance You Owe vs. Available Credit Lines (30% impact on your credit score)

Keeping your credit balances below 50% of your available limit is very important. Keeping your balances below 30% of your available credit is even better. This is perhaps the most misunderstood part of credit scoring and often the easiest to manage.

- **Pay debt on time**
- **Know your credit history**
- **Keep your credit balances below 50% of the available limit**
- **Credit inquiries affect your credit score**
- **Multiple inquiries by home loan lenders within 45 days count as only one inquiry**

A few common myths about available credit:

1. You should close all your credit accounts if you are not using them.
2. Credit accounts should not appear on your report after they have been closed.
3. You should not have any open credit card accounts at all.
4. You should not have high limits on your credit lines.

The credit scoring system looks at the percentage of debt you owe vs. your overall credit lines, not the amount of credit that you have available. For this reason, **most of the time it is better to leave your credit accounts open.** By not using the credit available to you, the system regards you as having enough financial restraint and discipline not to overload on debt.

For instance, if you owe \$10,000, and you have \$100,000 of credit available to you, you are only using 10% of your available credit line. On the other hand, if you owe \$10,000 and you only have \$20,000 of credit available to you, you are using 50% of your available credit line. This is negatively interpreted by the credit scoring system as being a strong dependence on credit. Furthermore, if you owe \$10,000 and you only have \$10,000 available to you, you have "maxed out" your available credit and your credit scores will be very negatively impacted. **It is not how much you owe, but how much you owe compared to what you are able to borrow.** If you have no debt and no credit lines open or available to you, you will end up with a lower score than someone who has no debt and a few lines of credit available to them.

Three Practical Steps to Improve Your Score in This Area:

1. Do not close your credit accounts unless it is necessary to do so.
2. Do not concentrate large balances on just a few accounts. Pay outstanding debt down as close to zero as possible, and evenly distribute the remaining balance across all your open credit lines so no one account uses more than 50% of the available limit.
3. Call your credit card companies and try to increase your available credit lines if they can do so without pulling a new credit report.

3. How Long Your Accounts Have Been Open (15% impact on credit score)

The longer your accounts have been opened, the higher your score will be; newly opened accounts will bring your score down.

3 Practical Steps to Improve Your Score in This Area:

1. Do not close your credit accounts unless absolutely necessary. If you have more than 6 credit cards and feel you must close some unused ones, close the newest ones.
2. Use the cards you have at least once every 6 months to keep them in "active" status.
3. If you don't have much credit history and would like to get a mortgage at some point, it is a good idea to establish a few open credit lines. Although newly opened accounts can lower your score initially, they will improve your score once they have been open for awhile, have some use, and then are paid off in full.

4. Type of Credit You Have Open (10% impact on credit score)

A good mixture of auto loans and leases, credit cards and mortgages is always best. Too many credit cards is not a good thing, and having a mortgage will increase your score.

2 Practical Steps to Improve Your Score in This Area:

1. Having 3-5 revolving credit cards open is optimal.
2. Having a good mix of auto loans, credit cards and mortgages is positive for the score; rather than having a concentration in credit cards only.

5. Number of Recent Inquiries (10% impact on credit score)

Inquiries affect the score for one year from the time the inquiry is made. Personal inquiries do not count toward your score. In other words, you can check your credit report as often as you like and that won't affect your score. The score is only affected if a potential creditor checks your credit. Potential creditors include credit card companies, auto finance companies, department stores and mortgage companies.

The reason inquiries impact your credit score is because the scoring system assumes that if you have many recent inquiries, you must be strapped for money and in some type of "panic" mode, trying to get credit wherever you can find it. The system also assumes that all these inquiries will eventually result in new accounts being opened, and as stated before, the system doesn't like you to open new accounts and punishes you by giving you a lower credit score.

3 Practical Steps to Improve Your Score in This Area:

1. Multiple auto and mortgage inquiries are treated as one inquiry if made within 45 days of each other. So, it is better to shop for a car or a mortgage over a two week time-frame, rather than to prolong it over a longer timeframe.
2. Don't apply for a lot of credit or open multiple credit cards at the same time.
3. If you are thinking of applying for a mortgage within the next 90 days or so, it would be good to wait until after your mortgage closes before you apply for any new credit.



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