

Understanding Your Credit Score for Mortgage

How Your Credit Score Is Determined

Your credit score is also commonly called a FICO® Score. It's an analysis of all your credit files that together represent how credit-worthy you are. Here's what goes into your score, and how it's added up:

- **Payment History (35% of score)**
 - Payment information on all your credit accounts
 - The most important thing a lender wants to know is do you make payments on time
- **Amounts Owed (30% of score)**
 - Total amount owed on all credit accounts
 - Amount owed on individual credit accounts
 - How much of the total credit line is being used
- **Length of credit history (15% of score)**
 - How long you've had an established credit history
 - How long each account has been established
 - How long since you've used certain accounts
- **New Credit & Inquiries (10% of score)**
 - How many recent requests for credit you've had
 - Applying for too much credit in a short period of time can hurt your score
- **Types of Credit (10% of score)**
 - Includes the total combination of credit cards, car loans, retail accounts, etc., you have in your name.

Most credit scores have a range of 300 to 850. The higher the better. A score in the mid 600 range is considered an acceptable score. Above that is considered good to excellent credit, which can mean lower interest rates and better terms. Someone with a score below 600 is considered high risk, which may result in a loan with a high interest rate and less favorable terms.

How You Can Improve Your Credit Score

If a low credit score is keeping you from getting a better mortgage rate, here are some ways to improve your credit score:

- Obtain a complete copy of your credit report from the three leading reporting agencies:

- Experian
<http://www.experian.com>
1-888-397-3742
 - Equifax
<http://www.equifax.com>
1-800-685-1111
 - TransUnion
<http://www.transunion.com>
1-800-888-4213
- Review your credit report line-by-line, searching for errors, omissions, duplications and "common name" errors.
 - If you find an error, contact the credit bureau. You're allowed to add 100 words or less to reports on questioned items.
 - Set up payment reminders on your accounts to help you avoid late payments.
 - Reduce your debt as much as possible, pay off any accounts you're able to.
 - Keep the balance on credit cards low.
 - Get assistance from a credit counselors, available through the credit bureaus and local government agencies.

Good to know:

- Federal law requires credit bureaus to contact all creditors on items where mistakes were made. According to the Fair Credit Reporting Act of 1971, if these firms fail to respond to you in writing within 30 days, they are obligated to remove the disputed items from your records.
- The Fair Isaac Resolution Resources Helpline is 1-800-777-2066.
- Most merchants are willing to negotiate customized repayment plans for people with considerable debt.
- Chapter 13 bankruptcies stay on an individual's record for 7 years.
- Chapter 7 bankruptcies stay on an individual's record for 10 years.

Judgements, Garnishments or Liens

Liens, garnishments and judgments can be indicators of an unstable borrower. It's important to pay off your liens in full prior to closing. Even better, before applying for your loan. This includes tax liens. Standard property tax liens don't have to be recorded as paid in full since they're not yet due or payable. Be prepared to provide your lender with receipt showing anything outstanding was paid off, or letter with a satisfactory explanation describing why they might still be outstanding.

Delinquent Child Support

Outstanding child support payments must be brought current, and proof that they have been must be provided – there are no exceptions to this. A letter from an ex-spouse, or copies of personal checks, are not acceptable. Neither is an agreed-upon, but not yet completed, payment plan. Because of the

seriousness of the delinquency/default, which in many states can result in jail, only a letter from the court or the legal authority responsible for collection of the payments in the city/state (e.g. district attorney, sheriff, etc.) is acceptable.

Need more help or additional ideas? [Contact us online](#) or call 800-317-7463. We'll explain everything.