

BOOSTING YOUR CREDIT SCORES

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In today's marketplace, credit has become more and more important. Credit can determine if you "get the job", or what interest rate you get on your mortgage, or on your car insurance..... basically, good credit is priceless. Some people think that if they don't mention or even think about their personal credit issues, then they will just automatically "fall off" their credit report. Well, things do fall off but not for a good seven years and some bankruptcies do not have to "fall off" for a 10 year period. That's a long time to suffer the downside penalties of having a low credit score.

I work as a mortgage lender and I'm now seeing a lot of credit issues, now more than ever before.

Let's set the facts straight. All lenders' viewpoints on credit scores have changed in the last year or two. Now, it's important to try and have a minimum credit score of at least 620 when shooting to get a mortgage loan. A good credit score would be in the 680 - 700 range, and an excellent credit score is now 740 or higher.

I often get asked what can be done to improve a credit score?

Firstly, and the most obvious is paying bills on time. This one is a no brainer! Your last two years of payment history is most important in this regard. The next critical issue is the Limit to Balance Ratio. In other words, if you have a credit limit of \$10,000 but you owe \$8500, this means you owe 85% of your limit. However, if you owe over 70% of your limit, your credit score takes a hit. It's better at this stage to owe on two cards but not be above your 70% limit to balance mark.

The other thing I actually see going on now, is that people are overcompensating for their past problems and moving towards no credit cards. So they pay off their outstanding balances & close all their credit card accounts. Please, if you are going to be buying or refinancing, **FIRST** speak w/ your mortgage lender, before you do this. I've seen client's credit scores drop by 100 points in a few months because now they have no open credit lines. Shocking but true. Credit cards are not "bad", they just need to be managed with some discipline, like paying them off in full each month.

You don't have to be perfect to get a loan, as a matter of a fact, you could have had a bankruptcy 2 years ago and as long as you have reestablished credit, you can buy a home with less than 5% down.

One of the best way to reestablish credit is by means of a secured credit card. This means you deposit, say, \$1000 with a card company and they allow you to use their “secured credit card” up to that limit. You pay the card on time or in full each month and after 6-12 months you will establish a history of paying on time....this is called a good credit history!

Sometimes, if you have a collection on your credit report, you may think... I will be good and I'll pay this off so my credit score goes up. Guess what? This may make your credit score go down! REALLY! So before you do that, again please check with us to make sure whether you need to do that before you close on your home

The best piece of advice I can give someone applying for a mortgage loan is to apply BEFORE they have made an offer on a house. That way if they have credit issues; there is time to solve them and maybe get less money down or a better rate on the home. I would suggest you always get preapproved at least 2- 3 months before you are going to write the offer. It can't hurt and there should not be a cost to this.

Credit scoring models are constantly being updated and revised. I've noticed lately that when my clients' don't use their home equity lines or credit cards, the creditors close those accounts or reduce people's limits. This can affect your balance to limit ratio. So in short, you need to use credit so that you don't “lose” credit. Shooting for 4 pieces of credit is a great idea. I have seen people with 18 credit cards (and very low balances); have 800 scores, so it's not sometimes what you think... sometimes the scoring model is not perfect.

Lastly, I would suggest you go to www.annualcreditreport.com This is a government approved site that allows you a FREE annual credit report. Review yours in detail. The scores will not be on this free report but it is invaluable for checking on the details which make up your credit. It takes a little time, but it's so worth it, to handle any discrepancies and safe guard against indentity theft. The law is on your side here, because if you see any discrepancies, the credit agency must, by law, do something about within in 30 days....otherwise it has to be removed.

If you have particular questions on your credit, feel free to contact me with specific questions. We teach free workshops on credit management, held either at nights or on weekends. Please consider bringing your children, or those you love that are younger, to learn about responsible credit usage.