

IMPROVING YOUR CREDIT RATING



CMPS professionals are committed, qualified and equipped to help you improve your credit rating. Your credit scores usually determine the price you pay for your money (your mortgages, your auto loans and leases, your credit cards, business loans, etc.).

Perhaps the most significant part of your credit report is your credit score. Credit scores range from 350 to 850, with 850 being the best possible credit score that you could receive, and 350 being the worst possible credit score. There are five factors that determine your credit score:

● **Your Payment History - 35% impact on your credit score.** Paying debt on time and in full has a positive impact. Late payments, judgments, charge-offs, collection accounts and bankruptcies have a negative impact. One of the most important issues as far as payment history is whether or not you have had any late mortgage payments in the last 12 months. Timely mortgage payments are weighted heavily by the scoring systems and are one of the most vital requirements that lenders look for when evaluating your credit history. Many times a single late mortgage payment within the last 12 months can hold up your file or spell the difference between the best interest rate and the next credit level. This is not to say that your mortgage is the only debt you should pay on time. Your payment history on other debts (car payments, credit cards, etc.) is also given a lot of weight.

The credit scoring systems evaluate how many late payments you have had and whether they were 30, 60 or 90 days late, or whether they are currently in default, with default being the worst situation. Additionally the systems look at whether the late payments were consecutive. If you only have one or two minor late payments on your report with no other derogatory marks, your score will not be terribly affected, but you will have a tough time getting over the critical 700 level.

Bankruptcies and judgments are another major area of importance. If you have had any bankruptcies within the last 7 years, it will seriously affect your ability to borrow or establish new credit accounts. Additionally, if you have had any judgments within the last several years, it is very important that you pay off the judgment 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 the closing. However, in some cases, they can be paid out of the loan proceeds.

Here are four practical steps that you can implement to improve your credit score in the area of "Payments":

1. Make all your payments on time.
2. Past dues on any account will destroy your score - bring your delinquent accounts current immediately. A 30 day late payment one month ago is worse than a 90 day late payment three years ago.
3. Pay your bills before they go to a collection agency.
4. Check your credit report for accuracy on a regular basis; and make sure that disputed bills are not negatively affecting your credit scores.

● **The Balance You Owe vs. Your 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 single most misunderstood part of credit scoring. There are a lot of misinformed people that don't understand how the credit scoring systems work, and yet they insist on pretending to be experts in this area. Here are just a few of the common myths:

1. You should close all your credit accounts if you are not using them.
2. You should not have credit accounts 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.

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



fast facts

- **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**



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Remember, the credit scoring system looks at the percentage of debt you owe compared to your overall credit line.

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. Therefore, it is not how much you owe, but how much you owe compared to what you are able to borrow.

Additionally, 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. Financing is a game of percentages and ratios. The credit scoring system does not look at the dollar amount of debt you have; only the balance you owe, compared to how much credit is available to you.

Here are three practical steps to improve your credit score in this area:

1. Do not close your credit accounts unless it is necessary to do so. It is better to have many open accounts with little or no balance than to have just one or two accounts regardless of the balance.
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. The key is to keep the balances down below 30% or at the very least 50% of your available credit line(s).
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.

• **Your Credit History, or how long your accounts have been opened - 15% impact on your credit score.** The longer your accounts have been opened, the higher your score will be; newly opened accounts will bring your score down.

Here are three practical steps for you to improve your score in this area:

1. Do not close your credit accounts. If you have too many department store credit cards, close the newest ones - do not close the old accounts. If you keep your accounts open and use them every once in a while, your score will improve over time.
2. Think twice before jumping on that latest 0% credit card offer or opening a new card just to get a 10% discount at a department store.

3. If you don't have much of a credit history, and you are planning on taking out a mortgage in the future, it would probably be a good idea to establish a few open credit lines with little or no balance on them. Although newly opened accounts tend to lower your score initially, they will improve your score once they have been open for awhile, somewhat active and paid off with little or no balance.

• **The type of credit that you have open - 10% impact on your 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 does increase your score.

Practical steps to improve your score in this area are:

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.

• **The number of recent inquiries that have been made by creditors - 10% impact on your 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 that 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.

Here are three practical steps that you can take to improve your credit score in this area:

1. Multiple auto and mortgage inquiries are treated as only 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.

CMPS professionals help you implement these and other strategies that improve your credit rating.

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