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Here's How Your Credit Score Will Affect You...

A good credit history is more important than ever. Solid credit keeps down the cost of consumer financing, and it can be the deciding factor in whether an auto or home loan application is approved. There is a trend in the mortgage industry - **Credit Scoring**. In their never ending search to find an easier way to rate a person's financial ability, mortgage companies are using a system called credit scoring (Sometimes called "FICO" scores). When lenders pull up your credit report, they can look at all of the debts that you have, how much you owe, how well you make your payments, and many other things like if you've had any bankruptcies, judgments or other credit issues within the last several years.

In today's fast-paced, high-tech age, your credit history will be reviewed more often by artificial intelligence than human intelligence. This computerization has made the loan process much more efficient. That's a good thing. But computers take all the subjectivity out of credit evaluation, and that means *you* have to take ownership of your own credit standing to make sure you're not blindsided by any stain on your record. When a lender obtains your credit report, the report will contain a "credit score" which takes all of this information. This credit score is a number that lenders use to decide which types of loans that you will be eligible for. FICO scores are calculated by a system of scorecards, developed for each repository. Fair Isaac uses credit data on millions of consumers and applies complex mathematical methods to perform extensive research into credit patterns that forecast credit performance. Fair Isaac identifies distinctive credit patterns corresponding to the likelihood that a consumer will make his or her loan payments in the future. The score is based in ALL the credit-related data in the bureau report; not just negative data such as missed payments or bankruptcies. Credit bureaus do not use race, color, religion, national origin, sex marital or age as predictive characteristics. Occupation or length of time in the present home is also not used in creating a Bureau score. Fairly frequently, erroneous information appears on a credit report. This can take a few months to correct, which might mean the difference between being able to purchase your dream home or not.

There is controversy over these credit scores. Some types of loans require that you have a certain credit score to get the loan – no exceptions. And credit scores change over time (even from day to day). As a matter of fact, just applying for credit can lower your credit score.

Credit scores usually range between 400 on the low side to 800 on the high side. On rare occasions these ranges can be exceeded. Sometimes a score cannot be obtained for factors like lack of credit history or too few lines of credit.

If you know your score, then you can see what the creditors see and have the ability to get a jump-start. Here is a quick breakdown of what a score means to a creditor:

720 and over	Wonderful, you are at the top. Best rates and terms.
700 – 719	Excellent score. You are a very desirable borrower.
680 – 699	Good credit. You should be in strong shape to buy.
660 – 679	Okay credit. Don't look for other exceptions.
640 – 659	Borderline. Okay if everything else is strong.
620 – 639	Weak. The rest of your file must be perfect.
600 – 619	Difficult. Needs some work or a special program.
Below 600	Trouble. Try to fix up your credit.

Borrowers with scores over 700 can usually be granted exceptions for other problem areas like new employment or frequent job changes. These borrowers can get the benefit of extended qualifying ratios to help them obtain a loan. This is a big plus not only in getting approval but also in avoiding the more costly "no income verification" option.

Now that you know what a credit score is, here's how to make sure you have the best one possible...

First of all, if you're applying for a mortgage, you shouldn't apply for any new credit cards or consumer loans. Don't go down to the furniture store and take them up on the "No interest, no payments, no nothin' for one year" financing program -- and of all things, don't go out and finance a car!

You can do all of these things *after* you get your mortgage and buy your house, but for your own sake, don't do it before. Buying things on credit could lower your credit score and leave you less money for you to use as a house payment. Lenders look at this figure also to determine how much money they will lend you, and how much they will charge you to lend it. Wait until after you've bought your home and moved in to get that new couch or big screen TV.

If you would like to improve your credit, there are a few things you should know. An easy way to start is by increasing your credit limits. If the ratio between the amount of credit you owe and the maximum credit limit increases, the computer views it as a plus in scoring.

Try to avoid frequent inquiries into your credit history. This can trim your score a few points. The good news is that the negative effect of multiple inquiries only lasts about 30 days.

Keep in mind that you have a right to an error-free credit report. For instance, if your profile shows a late payment without a specific month of delinquency, that item can be removed. This is a great tool, but you need to check your credit and make the requisite phone calls.

Remember, it may take a couple of months for your credit score to reflect the changes. There are three credit bureaus that report a score, so in essence you will get three scores for your credit. And creditors usually take the median of the three scores.

You can get in touch with the credit bureaus on their websites:

www.experian.com (Experian – 1-888-EXPERIAN or 888-397-3742)

www.transunion.com (TransUnion – 1-800-916-8800)

www.equifax.com (Equifax – 1-800-685-1111)

If you are considering purchasing or refinancing a home and would like a FREE consultation simply call our office during normal Arizona business hours. You can reach **Todd Abelson at (520) 901-7160 or Toll-Free (888) 744-5100 extension 17160.**