



..... *Your* Credit Score

What It Means to a Prospective Homebuyer

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Introduction

So you are looking for your dream home. Did you know your credit score will affect your ability to qualify for the best home loan rates and home loan products?

Specifically, a lower credit score might lead to:

- 1 A higher interest rate
- 2 Higher closing costs
- 3 Higher private mortgage insurance (PMI)

That's why it's important for you to understand what a credit score is and how your financial activities directly influence your credit score.





The History of Credit Scoring

The credit scoring system used today was designed in the 1950s to help lenders determine how well consumers can repay a loan in a timely manner. Over the decades, laws have been enacted to establish and maintain transparent credit scoring and reporting practices.

For example, the Fair Credit Reporting Act in 1971 established guidelines for fair practices regarding the use of credit scoring. In addition, the Fair and Accurate Credit Transactions Act of 2003 enables each American to obtain one free credit report every 12 months from each of the three main credit reporting agencies:

- 1 Equifax®
- 2 Experian®
- 3 TransUnion®

These bureaus have created a central website, [AnnualCreditReport.com](https://www.annualcreditreport.com), to accommodate consumers who wish to do so.

**Get your free credit reports
at [AnnualCreditReport.com](https://www.annualcreditreport.com).**



What Is a Good Credit Score?

Credit scores have different ranges; however, the score that is used by 90 percent of lenders and creditors in this country is known as the FICO® score, which ranges from 300 to 850.

The higher the FICO credit score, the better for the consumer. A higher credit score translates into a lower interest rate, which can save a consumer thousands of dollars in financing fees over the life of the loan.

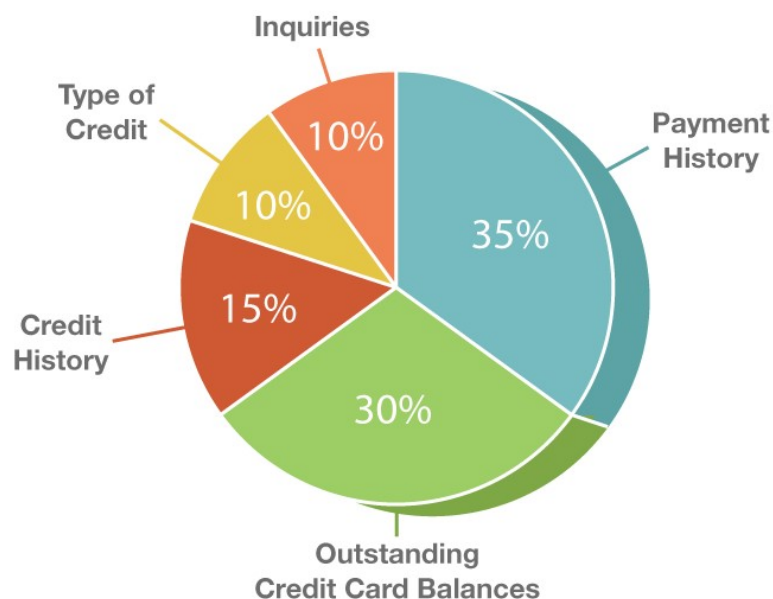


The 5 Factors of Credit Scoring

Credit scores are established on these five factors and their varying degrees of importance:

- 1 Payment History – 35% Impact:** Paying off debts on time has the greatest positive impact on your credit score. Paying off balances each month rather than only making minimum payments also has a positive impact. Delinquencies that occurred in the last two years carry more weight than older items.
- 2 Outstanding Credit Card Balances – 30% Impact:** This marks the ratio between the amount a borrower owes and available credit. Ideally, consumers should keep balances as close to zero as possible, and definitely below 30 percent of the available credit limit.
- 3 Credit History – 15% Impact:** This indicates the length of time since a particular credit line was established. A longer credit history benefits borrowers.
- 4 Type of Credit – 10% Impact:** A mix of credit, such as an auto loan and a credit card, is more positive than a concentration of debt from just credit cards.
- 5 Inquiries – 10% Impact:** Each inquiry made on a consumer's credit within a 12-month period can deduct points from a credit score. Personal credit inquiries do not impact scores.

Credit profiles fluctuate with time based on the factors described above. Bad credit scores are mostly a result of late or unpaid and outstanding bill payments.





3 Ways to Get Your Credit Score



Check your credit card or auto loan statement.

Many companies have begun to provide credit scores for customers on monthly statements or online accounts.



Talk to a nonprofit credit counselor.

Many can provide you with a free credit report and score and help you review and understand them.



Buy a score.

You can buy a score directly at myFICO.com or from the three credit reporting companies. Visit Experian.com, TransUnion.com and Equifax.com to learn more.

Source: ConsumerFinance.gov





Get Your FREE Credit Report

By law, each of the credit reporting agencies must provide a free copy of your credit report, at your request, once every 12 months.

To get yours:
Go to **AnnualCreditReport.com**
Or call **1- 877-322-8228**

Note that these free annual reports do not disclose credit scores.

Instead, the reports provide an idea of what information lenders and service providers see when it comes to your debts and your credit history. More importantly, these free reports help ensure that the information on all of your credit reports is correct and up to date.

You are
entitled to
one free
credit report
every 12
months.





What If There Are Errors on My Credit Report?

If you find that you have errors on your credit report, follow this procedure to correct them:

- 1 Make a copy of the report and circle the item(s) in question. Keep the original for your records.
- 2 Prepare a letter to the credit reporting agency requesting to have the item(s) removed or corrected. If you have documented proof to support you (e.g., proof of payment) include a copy.
- 3 Also prepare a letter to the creditor reporting the item(s), informing them that you are disputing the error. State why and include supporting documentation.
- 4 Send your correspondence via certified mail.

You should receive a response within 30 to 45 days. If the error has been corrected, the credit reporting agency will send a new credit report.

If you do not receive a response, send a follow-up letter reminding them that the Fair Credit Reporting Act requires a response within 30 days from the date they received your initial dispute. Attach your original letter and proof of delivery.

If the credit reporting agency responds that your claim has been investigated and the item will not be removed or updated, you can request a reinvestigation under Section 611 of the Fair Credit Reporting Act. Do so within five days of receiving the results.

You can repeat this process; however, after three to four attempts, you may consider filing a complaint with the Federal Trade Commission Consumer Response Center at ftccomplaintassistant.gov.



What If I Have No Credit?

Start establishing credit history by opening small lines of credit that report to all three major credit reporting agencies, and make purchases that can be paid off easily.

Another option would be to obtain a secured credit card that reports to all three credit reporting agencies. This type of card works like a debit card and will require deposited funds for purchases.





Stay Informed

The Federal Trade Commission regulates credit repair services and provides free resources to help consumers better understand credit.

Visit **[ftc.gov](https://www.ftc.gov)** for publications and online information regarding consumer credit.

Remember! Building and maintaining good credit will benefit you in the long run by opening up financing opportunities to achieve your homeownership dreams.



Your Credit Score

We hope this information has been helpful for you. Please call us today for more information and to discuss how we can help make your homebuying experience go as smoothly as possible.



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