



## Increasing Your Credit Score

**Good credit translates into lower rates for the borrower!**

**Here are just a few quick tips that can help put you in a better position under the discerning eye of an underwriter!**

- **HOT TIP!** Do you have past due balances that have been neglected? If they are showing up on your credit report and you want to purchase a home, make sure you bring them up to current status whenever possible.
- **HOT TIP!** Do you have outstanding debt that you can afford to pay off right now? Try to get these accounts down to a zero balance, or at least a lower balance. If your cash on hand doesn't allow you to do this, try to distribute the debt amongst other open credit cards. You can also consider opening a new line of credit and transferring part of the balance off a card that is close to being "maxed out." If you can get the resulting balances below 50% of the available credit, you're on the road to improving your credit score considerably in most cases.
- **HOT TIP!** Do not close existing credit card accounts, even if you don't want to deal with the company any more... Believe it or not, the credit history is a good thing to have!
- **HOT TIP!** When married couples keep separate credit card accounts, some or all of the balances can be transferred to one spouse's list of accounts. This gives the other spouse an opportunity to increase their credit score and designate him or herself as the sole borrower on the mortgage loan. Ownership of the home can remain in both names!
- **HOT TIP!** See if your credit provider will increase your available lines of credit. This can, in turn, reduce the overall debt ratio, but only do this if your credit card company can do that without a hard credit inquiry.
- **HOT TIP!** Do you have past dues and charge-offs within the last two years? Pay them off now, if you can! Past dues older than two years will have little to no impact on your credit score if they are paid, but can possibly bring the score down, which is something we don't want to do... Focus on that 2-year time frame.
- **HOT TIP!** Do you see errors in your report? Request the credit bureau delete any outstanding debt that is incorrectly charged to you, or things that should have been removed that you have already paid. They have an obligation to reconcile this within 30 days. If you see items on your report that are less than two years old and you have the money to pay it off now, mark the back of your payment check with the following notation: "Accepting this check is evidence that the transaction is complete and this charge will be deleted from my credit record." If necessary, you can use this cancelled check as proof of the transaction in the event the outstanding debt is not removed promptly and interferes with the closing of your loan.

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## The Five Factors of Credit Scoring

MyFico.com has shared information regarding the credit scoring model. Consider these five factors when trying to improve your credit.

**Payment History** has a 35% impact. Paying debt on time and in full has a positive impact, and late payments, judgments and charge-offs have a negative impact.

**Outstanding Credit Balances** have a 30% impact. Debt ratio of outstanding balance to available credit is important. Keeping that below 50% is wise and below 30% even wiser. It is never a good idea to close an account; the debt ratio will go up and the number of seasoned lines will decrease. Pay outstanding debt down as close to zero as possible and evenly redistribute the remaining balance among the open lines. The increased interest incurred by moving a balance from a 0% card to a 23% card will be minimal relative to what the increased mortgage debt might be with a low credit score. Hitting the maximums of available credit can be very negative. It may be worth calling and asking the credit company to increase your available credit to lower the debt ratio, provided they can do so without a hard credit inquiry.

**Length of Credit History** has a 15% impact. The length of time a particular credit line has been opened is important. A seasoned borrower is stronger. Opening new credit cards will decrease the average length, and therefore hurt this portion of the score.

**Type of Credit** has a 10% impact. A mix of auto loans, credit cards and mortgages is positive, rather than a concentration in credit cards only. Careful, too, when getting credit at a store that is not a department store: the credit agencies frown on cards for more specialized stores where you're likely to only make one purchase, as they seem to show desperation.

**Inquiries** have a 10% impact. Hard inquiries for credit will negatively impact the score. Auto and mortgage inquiries receive special treatment and 20 inquiries can be made in a 14-day period for auto or mortgage and will be treated as only 1 inquiry. The maximum number of inquiries that will reduce the score is 10. Any inquiries beyond that in a six-month period will have no further impact on the borrower. Each hard inquiry can cost 2-50 points on a credit score.

For information on financing tips, mortgage scenarios, quotes, approvals, and comparisons call:

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