

What Defines Your Credit Score?

The Fair Isaac Corporation (FICO) and the credit agencies have created a five-pronged, proprietary formula for creating credit scores. The following categories that are important under the FICO model and constitute the basis for your total credit score:

✓ **Length of Credit History (15 %)**

This criterion is less favorable to younger borrowers. The longer a borrower has established credit, the easier for lenders and credit bureaus a good feel for how responsibly borrowers handle their accounts.

✓ **New Credit (10 %)**

This looks at the number of recent credit accounts and inquiries that are on your report. If you've just opened seven new credit cards, your score will go down for a while until your payment patterns are established and documented. New credit can help your scores, too, as it makes a big difference to show healthy credit after past derogatory activity.

✓ **Payment History (35 %)**

Late payments are penalized in tiers by 30, 60, and 90 day increments. They can reduce your score significantly, which may tip the scales between qualification and rejection for financing the home of your dreams. Depending on your FICO score, a 30-day late payment may reduce your FICO by as many as 110 points.

✓ **Amounts Owed (30 %)**

Here the formula looks at your debt and weighs it against your available credit. In order to get full points here, you'll want to keep your revolving debt balances (like credit cards) below 30 percent of their approved limits.

✓ **Types of Credit Used (10 %)**

Managed credit diversity improves your FICO. If you have only used department store credit cards, you'll get a lower score here than someone who can show a credit card, a student loan, an auto loan and a mortgage that were all paid on time. The scoring models cater to credit users with a diverse range of accounts to document responsible use and repayment.

Can You Know What's in Your Credit File?

Yes. The first step is to obtain a copy of your credit report and scores so you know what the bureaus and agencies are reporting about your credit. You can obtain a free copy of your credit report once a year by visiting www.annualcreditreport.com or www.freecreditreport.com, among other sites. Some sites will require a small fee before they allow you to see your FICO.

To qualify for a mortgage, you will need to select a “tri-merge” credit report that shows all three bureaus, alternatively, you may select individual reports with each of the three credit bureaus. Most lenders will check with all three bureaus and you should do so to avoid any later surprises.

How Do I Repair My Credit Score?

Remember that all credit is in constant flux or is constantly changing. A poor score at one time in your life does not mean it has to stay poor. There are ways to repair bad credit and improve mediocre credit. Late payments are not your friend. Most creditors wait until an account payment is more than 30 days overdue, before reporting an account to the bureaus. Do not risk last minute payments even though money gets tight around the time payment is due. After you have tackled past credit mistakes, you need to create good spending habits as part of a plan to repair your credit scores. Follow these steps to increase your credit score:

✓ **Settle and Pay Outstanding Debts**

Any adverse transactions such as: repossessions, collections, judgments or tax liens, will have to be satisfied before a lender will extend credit to purchase or refinance a home.

✓ **Make a budget and stick to it**

You must learn to live within your means. If you do not have a handle on where your money is going or how much you owe each month, you are a candidate for a budget. This may take some discipline as you allocate portions of your income to various categories of expenses. You will need to write down a plan and make entries as you spend your money. Your goal should be to live within your means and shed expenses that are not in your economic best interests.

✓ **Don't have your credit checked unnecessarily**

Do not fall for unsolicited mailers, advertisements or credit card counseling or repair programs that promise to analyze and improve your credit; they may adversely affect your credit scores. Some of these companies may be scam artists who will promise results but often do help your overall credit rating. If you check your own credit (see above) you will not adversely affect your scores.

✓ Don't close old accounts

The longer you have had an account open, the more important it is to keep it open. This will help the overall “age” of your credit. The longer you have an account open the longer the bureaus can track your spending and paying habits. Seasoned accounts have weight in determining your credit worthiness. If you start to have payment problems, contact creditors right away to get help restructuring payments. Once a debt is paid off, keep the account open, even though you may not intend to use it in the future.

✓ Be Sure to Use Credit

Using your credit creates debt but at the same time helps to establish credit history which is vital to tell lenders what kind of borrower you will be. Paying your credit balances shows responsibility and takes you out of the category of a credit “unknown risk.” In essence lenders see you as an “unknown risk” when you are not using credit. In the beginning one way around the lack of credit history is to obtain a secured credit card that requires cash collateral or a pre-payment before the card is active. Once the pre-paid amount is used, you cannot spend more. This tactic eliminates the risk of non-payment thus helping to set a credit history or trail of spending and payment.

✓ Keep Credit Card Balances Low

Because the “amounts owed” makes up 30% of your credit score, it is necessary that you pay down the balances on your credit cards when they are due. The bureaus look for balances on your cards of less than 30 percent, both of the card's limit, and of your total credit limit. For example, if you have a card with a \$2,000 limit, you shouldn't put more than \$600 on it. Also, if your total credit limit is \$10,000 among all cards, keep your total card balance below \$3,000.

✓ Fix Errors

There are two ways to fix errors on your credit report: either go directly to the creditor and get the account information verified or contact the bureaus and ask them to verify any misinformation and take corrective action. Starting with creditors may be easier because they want to keep you as a happy customer and will help you. Lastly, make sure to get everything in writing and keep a record so you have proof of the correction in case you need it later to satisfy underwriting criteria for a mortgage or other credit.

Is Credit Repair A Quick Fix?

No. In taking the steps set forth above to improve your credit score, do not expect results overnight. The goal is to achieve higher scores because they mean lower mortgage rates or even the ability to qualify for a mortgage. Often it may take the bureaus 30 days to update your

report after a complaint is filed. And after the correction, it will take some time before you will be able to pull a new credit report with adjusted scores. While individual results vary from borrower to borrower, creating good spending habits, having a budget and sticking to it, making timely payments, and not developing any further derogatory history will allow your scores to gradually increase. Be patient and stick to your plan for repair. During an escrow for a home purchase is no time to find out that the underwriter will not accept your application in time to complete escrow and you may lose the home.

If you have more questions about credit and loans, contact one of our loan specialists at Alpha Mortgage at 209-476-1953 or apply for a loan at our website: www.alphahomeloans.com. We look forward to assisting you with financing goals.

How Do I Contact the Bureaus?

The bureaus may be reached at the following addresses and telephone numbers:

Equifax Information Svc., LLC
PO Box 74021
Atlanta GA 30374
800-685-1111
www.equifax.com

Experian
701 Experian Parkway
Allen TX 75013
888-397-3742
www.experian.com/reportaccess

Trans Union
PO Box 1000
Chester PA 19022
866-887-2673
www.transunion.com