

Credit Score questions and simple things that can raise your score!

Many individuals today have blemishes on their credit reports. Whether it be from a dreaded case of Identity Theft or not being punctual about paying bills on time, these credit mishaps can cost an individual thousands in interest if not corrected.

Let's take a look:

Question 1 – What makes up a credit score? A credit score is made up of five components. Payment history (35%), balances carried (30%), credit history (15%), mix of accounts (10%), and inquiries (10%).

Question 2 – Payment history is based on paying bills as agreed and on time. The majority of the payment history is based on the most recent six months and the highest weight is on the highest pay history. For example, a mortgage loan would be rated first and then the next biggest payment, whether it is an auto loan or credit card with a high payment, would rate next.

Question 3 – Balances carried is rated based on the balance to limit ratio. Being that this component makes up 30% of the credit score, it is best to keep the balance to limit ratio low. Let's take a look at an example.

Let's say a borrower has two credit card accounts, one Visa with Citibank and one Visa with Bank of America, and both accounts have credit limits of \$10,000 but, one is maxed out and the other has a zero balance.

If the credit accounts are left as is, it will result in a lower credit score because balance to credit limit ratio is 100%.

On the other hand, if the borrower spread the balance between the two accounts and owed \$5,000 on each, the balance to credit limit ratio would only be 50% resulting in a positive affect to the credit score and would create a higher credit score.

It is important to note, mortgage and / or installment loans do not require the same approach as they have less of an impact with the balances carried component.

Question 4 – Credit history simply means the longer the account has been open the higher the credit score. However, to achieve the higher credit score the accounts need to be paid as agreed.

Additionally, many people have been advised to close accounts that they never use. Not the case! This can actually have a negative impact on the credit score. Never close old credit accounts, especially if the accounts have a long history.

Question 5– Mix of accounts. The ideal credit score is made up of both installment and revolving accounts and looks like this:

-Mortgage Loan

-Auto Loan

-3-5 Credit Cards (Or More)

Additionally, when obtaining an Equity Line of Credit apply for a loan amount greater than \$40,000. If the HELOC is greater than \$40K, it will fall into the mortgage category. If the HELOC is equal to or less than \$40K, it will be classified as a revolving account. Max out the HELOC and it will have a negative impact on your credit score.

Question 6 – Inquires have several factors to consider. First, if shopping around for a mortgage or a car, borrowers have forty-five days to complete their shopping spree. If all credit reports are pulled within a forty-five day period, it will only count as one inquiry. For example, if a borrower applies with one Mortgage Company and decides to switch to another mortgage company both inquiries will only count as one as long as the second mortgage company pulls the credit report within 45 days.

However, if the borrower is shopping for both a mortgage and an auto, one inquiry will count for each.

Each inquiry made averages about five points. After ten inquiries per year, inquiries will no longer affect the score.

Question 7– Several types of inquiries do not affect the credit score at all. When applying for a job, a job related inquiry does not affect the score. When submitting an application for insurance or to start a new utility account (e.g., phone, cable, etc.). When a lender automatically reviews your credit account to confirm that other accounts have been paid on time and credit limits are not maxed out. When an individual obtains a personal credit report through www.annualcreditreport.com. And, when promotional pre-approved credit card offers are received in the mail.

Question 8- Blemished credit can be very costly and can result in higher interest rates on mortgage loans, auto loans, credit cards, and insurance premiums. By taking the following

steps to improve your credit score, you could save hundreds even thousands of dollars over the term of a loan.

Question 9 – Here are five simple steps to raise your credit score 100 points in forty-five days. 1) Pay past due accounts, 2) get rid of late payments, 3) have credit limits increased, 4) become an authorized user, and 5) do not close old accounts. Let's take a look at each.

Question 10 – Pay all accounts that show a past due balance on your credit report. Past due accounts do not necessarily mean 30 days late, past due accounts can be 1 day late and show as past due on a credit report. This can severely hurt a credit score. Pay all past due accounts as quickly as possible to increase the credit score.

However, past due accounts do not include judgments and collections. It is best not to pay judgments or collections when applying for a mortgage. Wait until the close of escrow, if possible, and pay them at closing. Paying judgments or collections could create a negative impact on the credit score as the "recent activity" date will update if the account is paid and the collection will appear to be more recent than it may have been which will cause a negative impact with the credit score.

Question 11– Have late payments removed by contacting creditors and requesting to have any late payments removed. If your first attempt is not successful, try again and work your way up the ladder to a manager. Be persistent, as each time you phone a new representative will answer the phone.

If you are successful and the creditor agrees to remove the late, be sure to request a letter. The letter needs to be on the company letterhead of the creditor, needs to be signed by an employee and the letter must document your name, address, account number, and the specific late payment or late payments that should be removed.

Additionally, be sure to obtain the name of the representative that you spoke with as well as a contact number and extension, just in case you do not receive the letter and need to follow-up.

Question 12 – Increasing your credit limits can increase your credit score. Every six months or so call each creditor and request that each increase your credit limit. Be sure to request that the increase be made based on your great credit history. If the creditor insists that a credit report must be pulled, think twice before you agree as this will count as an inquiry and will have a negative impact on your credit report.

Question 13 – Become an authorized user on a relative or friend's credit account. But, if they agree, be sure to confirm that the account has been paid on time and the current

balance to limit ratio is below 10%. If the account has late payments or has a high balance to ratio limit, it will create a negative impact on your credit report.

Be sure to tell your relative or friend that there is no risk as the credit card is mailed to the account holder and you cannot use the card unless they provide you with the card.

Question 14 – Do not close accounts even if you have heard that old accounts that you no longer use should be closed. Keep accounts open and use accounts that have become inactive periodically. However, if you charge on the account be sure and pay the balance in full as soon as the bill arrives. Purchasing a tank of gas and paying it off will activate inactive accounts and report them current and in good standing. Closing accounts can actually lower your credit score, especially if the account has a long credit history.

Question 15– Summary. To achieve a high credit score be sure and do the following. Borrow money when you do not need it, when you do need money creditors may not give it to you.

Keep the balance to limit ratio low; do not max out credit cards. If you have to use credit cards, be sure to spread it over several accounts.

For a quick boost to your credit score, when a creditor removes a late and provides a letter, request a credit rescoring. For a fee, in just a few days, your credit score will increase and this could help you obtain a better interest rate.

Never payoff a judgment or collection when applying for a mortgage loan. Try to negotiate that the account will be paid in escrow.

Increasing a credit score by just 10 points may save you \$100,000 in interest on a \$500,000 mortgage over the 30-year term.

Overall, it pays to invest the time to clear up the blemishes on your credit report.