Tips to Improve Credit Scores

Have you heard the term "credit score" before, but are unsure of what it actually is and what this number stands for? With the Spring home buying season upon us, many consumers begin the process of searching for their first home to purchase while others put their current home up for sale and look for a new house. Before you begin house shopping with your realtor, it is important to first learn more about your credit score and how it affects your ability to borrow money to finance your new home.

A credit score is a determined scientific number from 300-850, which indicates the level of risk for repayment of debt to a lender at the time of the credit inquiry**.** Credit scores are based on a consumer's current debt utilization, payment history including mortgages, credit cards, auto loans, bankruptcy filings and any other public records, along with how long their credit has been established and a mix of credit types they are using. The number of inquiries about their credit during the last 12 months may or may not be a factor influencing their credit score, depending on all the other factors present in their credit file at the time of the inquiry. It is recommended that consumers meet with an experienced mortgage professional to discuss how to improve their credit score and profile. Consider the following tips to improve your credit score before purchasing the home of your dreams.

- All credit card balances should be paid to below 30% of the available credit limit on the card.
- Do not consolidate credit card accounts to one or two cards and close out other accounts. Consolidation of your credit card balances will noticeably distort the appearance of your credit utilization. Having a low balance on several credit cards is better than having a high balance on one or two cards where exceeding more than 30% of your available credit limit would indicate you were a higher credit risk profile.
- Keep your credit card accounts open and active by using your cards at least once every five months, even if it is for a tank of gas. When you receive the bill for a credit card you do not use that often, make sure to pay the bill in full. Do not close accounts without the advice of a knowledgeable mortgage broker, as doing so may negatively impact the balance of the variables weighed by the scoring model in assessing your risk profile and credit score.
- Review your credit report for accuracy at least 90-days before applying for a mortgage. Have any inaccuracies reported and have outdated information in your credit file modified by that specific repository by sending them a written dispute requesting the item be reinvestigated and verified as to its accuracy. You may want to ask your mortgage broker how you go about filing a written dispute with the appropriate repository.
- Have clear and concise documentation to support your claim about why you are filing a dispute request and mail that documentation to the reporting repository with a return receipt requested. The Fair Credit Reporting Act states that the process to make necessary modifications will take approximately 30 days. Individuals can obtain a free copy of their credit report and profiles by contacting Equifax, Experian or TransUnion at their respective websites (www.**equifax**.com, www.**experian**.com, www.**transunion**.com).

- Paying off a collection account or judgment will not eliminate it from your credit file. Paid or satisfied negative credit items will show a zero balance, but will not disappear from your credit file for a seven-year period from the occurrence of the negative item. A late or collection account will still be reflected in your credit file even if it has been paid off recently, as it was late or did go to collection therefore it is accurately reported.

As someone who has not yet established credit or whose credit score is considered low, there are new forms of scoring credit to help those with a blemished credit record. New forms of credit scoring use your payment record on utility bills, rental units and payday loans to assess your ability to repay. Even if your credit score is “less than prefect” as you decide that homeownership is right for you, talk with a trusted financial advisor or mortgage professional about your financing options that will best fit your financial circumstances.