



CrediTools[®]
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WHAT IS A CREDIT SCORE AND WHY IS IT IMPORTANT WHEN Applying for a Mortgage?

Your credit score is a numerical representation of your statistical likelihood to repay the credit that is extended to you. Your score is a snapshot of a specific moment in time but can and will change with new actions and the passage of time. Credit scores range from 300–850 with 300 being low and 850 being high. The higher the credit score, the more favorable your credit history will be viewed when applying for new credit or applying for a refinance of existing credit.

HOW YOUR CREDIT SCORE IS DETERMINED

Payment History = 35%

- Late payments will damage your score.
- A positive history will improve your score.
- The severity and quantity of delinquencies will also impact your score.

Amount Owed = 30%

- Too many credit cards with high balances can lower a score.

Length of Credit History = 15%

- The longer the history, the better.
- How long have your credit accounts been established?
- How long has it been since you used certain accounts?

New Credit = 10%

- Research shows that opening several credit accounts in a short period of time represents greater risk, especially for people who do not have a long established credit history.

Types of Credit in Use (Healthy mix) = 10%

Example of ideal credit mix:

- 2 installment loans
- 3 revolving accounts with balances
- Balances on revolving debt below 30% of the high credit amount
- No collection accounts
- No public records
- No foreclosures
- No late payments

HOW TO MAINTAIN FAVORABLE SCORES

Monitor your credit. Order a copy of your free credit report from each of the three major bureaus at least annually from www.annualcreditreport.com.

Pay all of your bills on time or early. Even a 30-day late notice on a small credit card can have a significant negative impact on your scores.

Don't co-sign loans! Their late payments are your late payments and will negatively impact **YOUR** credit scores!

Don't close old revolving accounts no longer in use. It helps your scoring when established accounts are open with zero balances.

Don't open new accounts unless absolutely necessary. (Inquiries may or may not affect your score depending on the rest of your credit history.)

Report fraud immediately. If you find yourself the victim of fraud, immediately contact the credit bureaus, your credit card companies, banks and the FTC at www.ftc.gov.

Do not extend or open new credit accounts while in the mortgage application process to purchase or refinance a home.



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