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With Credit Scores More Important Than Ever, Here's What You Need to Know

Sweeping changes have been implemented for all FHA, VA and conventional home loans in the past few weeks. In addition to increasing interest rates for borrowers purchasing at the "top of their buying power," a borrower's credit score now has an even bigger impact on interest rate than in the past. I asked **Jaxzann Riggs**, owner of **The Mortgage Network** to review "credit basics" with me and learned the following:

Let's Talk Home Financing

By JIM SMITH Realtor®

The five categories of data that impact your score, are: Payment History, Balances, Length of History, Types of Credit, and New Credit.

Your **payment history** makes up 35% of your credit score. For those who need the bottom line version of this paragraph – **pay your bills on time.** Potential lenders want to know if you are paying your current credit accounts when they are due. The timeliness of payments is the biggest factor affecting your credit score, so missing or being late on even one payment will sting. If you have otherwise spotless credit, a payment that is made 30 days after its due date can knock as many as 100 points off your credit score. Clearly, late payments make a huge impact, and even further, they stay on your credit report for 7 years. If there is one thing you remember from this article, it is to ***make your payments on time!*** … or at least before they are 30 days past due.

The second largest category is **balance owed.** Lenders want to make sure that you are not overextended. This category will look at how much debt you have over all, how much is owed on individual accounts, and how many accounts you have with outstanding balances. With revolving credit, like credit cards, **keep the amount owed on each card under 30% of the limit.**

The **length of history** shows whether you've had credit for six months or 20 years. Having a long track record without any major slip-ups suggests that your credit behavior will be consistent in the future. Lenders and credit card issuers like that**. Keep old accounts open unless there is a compelling reason to close them**, such as an annual fee on a card you no longer use. You might be able to help yourself a little in this category by becoming an authorized user on an old account with an excellent payment record.

Did you know there are **different types of credit**? Revolving (i.e. credit cards), installment (i.e. student/auto loans), and open credit (i.e. a charge card, actually different than a credit card). Having a mix of credit account types may show lenders that you are less of a credit risk because you've demonstrated an ability to successfully manage different types of credit and the payment systems associated with them. Having a mix of credit accounts positively impacts scores.

Lastly, keep in mind that applying for **new credit** can cause your score to slip. Each application causes a hard inquiry on your credit and will likely take a few points off your score, **unless the applications happen to fall withing a certain category of credit and within 7 days of each other.** As an example, multiple auto loan inquiries or multiple home loan inquiries all made within seven days of each other won't hurt your score.

Remember that it's ***not*** a good idea to shop for a new car at the same time that you are shopping for a home loan. Lenders don't like that.

If you are contemplating a home purchase, keep in mind that there are many steps you can take now to set yourself up for success. If you have any questions about the newly updated guidelines or need lending support in any way, do not hesitate to reach out to Jaxzann Riggs, owner of The Mortgage Network at **303-990- 2992.**