

## TIPS ON HELPING PEOPLE IMPROVE THEIR CREDIT SCORES

**Purchasing a home is the largest investment that most people undertake in their lifetimes. Since credit scores are a very important factor in determining what terms the buyer would receive on the financing in the purchase of a home, buyers should know what they can do to improve their credit scores.**

The first thing one must do is get his credit scores from the three major credit bureaus, Experian, Equifax and Trans Union, as there are three different scores. Each of these bureaus has slightly different information on each individual, since they sort of compete for the information. Hopefully, the scores are similar or grouped. Scores of 650, 660 and 640 are similar and would indicate no major discrepancies. However, scores of 650, 660 and 570 would indicate that the credit bureau reporting the 570 score has incorrect information that needs to be corrected, as this low score could lower the consumer's average credit score. It could also be the one used by an automobile dealer or other creditor, dramatically affecting the consumer's terms.

- **The homebuyer should locate any error or errors contained in the credit file and immediately challenge the incorrect information in writing by filling out a dispute form located in the back of the credit report.** This written challenge or dispute should be sent via fax or e-mail directly to the credit bureau, with a request for a receipt that they have received the written challenge. Once the credit bureau has received the written challenge, they must notify the retailer of the challenge. Once notified, the retailer has 30 days to respond in writing. If they fail to respond within the 30 day time limit, the consumer is to be given the benefit of any doubt. Once the error has been corrected the credit score would reflect the correction. The fallacy with this system is, it often takes 30-45 days to get a problem corrected and reflected in the credit score. That is why we recommend that the consumer/homebuyer get his credit scores 45-60 before closing on a home loan. That way he will have adequate time to correct errors and have adequate time to improve his credit scores.
- **Do not make inquiries for additional credit such as department stores, automobile dealers, furniture, jewelry stores or apply for additional credit cards.** You do not want a lot of recent inquiries on your credit report as they lower your score. Each inquiry can lower your score 3-5 points. It is OK to shop lenders, as long as they are similar entries within a 30-day time frame, they are to be treated as only one inquiry. (This category is 10% of your credit score.)
- **Pay off as many outstanding balances owed on credit cards and other month to month obligations as possible and cease using your credit cards until after loan closing.** This lowers your debt ratio and lowers the percentage of available credit used. The lower the percentage of available credit used, the better the score. It is a fact that people that are overextended on their debts do not pay as timely as those who are not overextended. Make sure that your balances do not exceed 30% of your available credit line, as your credit score will be lowered. If your balance exceeds 75% of your available line of credit, your credit score will decline substantially. (This category represents 30% of your credit score.)
- **Pay your obligations timely.** Pay before the due date or pay electronically or by check draft, to avoid late payments due to poor mail service. One late payment of more than 30 days in the past year can be more detrimental to a credit score than a bankruptcy that occurred more than 5 years ago! This is due to the weight given to the most recent time frame in credit scoring. (This category represents 35% of your credit score and it is the one that we can do the least about before loan closing.) If a consumer has a late payment of more than 30 days in the past year, he can raise his credit score by paying timely for the next six months. The score will climb substantially after one year of paying timely.
- **Do not use one credit card to pay off another during the 30-45 home closing period, as both credit card balances could show up increasing the available credit used and increasing the debt ratio.**