

# *Unraveling the Credit Score Mystery*



*“When You Want It Done Right!”*

The most important thing that you can do before shopping for a new home is to get “pre-qualified” by a credible mortgage lender. Through this process, the lender will look at four major things: income, debt, assets and credit. Logically, you will want to maximize your income and assets while minimizing your debts. You will also want to maximize your credit score. But how in the world do you do such a thing? The credit score is the single most important factor that goes into the equation, but most people have no idea what things they should do to maximize their credit scores. The purpose of this flyer is to educate you on both the credit scoring process and how you can increase your personal scores.

There are three major credit bureaus that collect the data that determines your credit score. Each bureau uses a different statistical model to generate your credit score and each one has a different “pet” name for their score. Equifax has the “Beacon” score, Experian has the “Emperica” score, and TransUnion has the “FICO” score (stands for Fair Isaac Company, which invented the scoring model).

The major purpose of a credit score is to predict if there will be a 90-day late payment over the next 24 months. The score is a numerical value that ranks individuals according to their credit history at a given point in time. Because new data is made available to the credit bureaus on a regular basis, the scores are subject to change daily. Lenders use scores to be able to quickly determine a proposed borrower’s risk level and if they are credit worthy. Because there are three credit bureaus, each individual receives a score from each bureau. The highest possible score is 900, while the lowest possible score is 350. The median score is 720 while the average score is 686. Here is a more familiar scale that will give you a rough idea of the credit score scale:

- A: 750+
- B: 700 – 750
- C: 650 – 700
- D: 600 – 650
- F: < 600

The data on a credit report goes back seven years (10 years for bankruptcies) and the score is based on over 30 different factors. Here is the breakdown of how the score is calculated:

- 35% established from past payment history
- 30% established from outstanding balances carried on accounts
- 15% established from length of credit history
- 10% established around types of credit you have
- 10% established around your requests for credit (inquiries)

(over)

*Fairfield Mortgage Associates*  
*“When You Want It Done Right!”*  
A Division of Guaranty Bank, FSB



Phone: 678-279-9000  
Fax: 678-279-2000  
[www.fairfieldmortgage.com](http://www.fairfieldmortgage.com)

# *Unraveling the Credit Score Mystery*

*(continued)*



*“When You Want It Done Right!”*

Here is a comprehensive list of the things that you can do to maximize your credit score:

- Avoid late payments of any kind including collections. The most recent one to two year period is given the most weight in the scoring analysis.
- If you do have collections, do not pay them off until your loan officers tells you to do so because normally when they are paid off they appear as a new collection on the report and hurt your score.
- Have the right number of accounts open. You need at least two accounts open for six months to generate a score, and three to five different type accounts is the optimal number of accounts to have open.
- Leave open accounts that you have had for a long time, but close out newer accounts that aren't needed or used. The longer an account has been open, the less likely you should be to close it out.
- Maximize the limits on your credit card accounts.
- Minimize the balances on your credit card accounts. The credit score model measures the ratio of the balance to the limit and, optimally, the balance would be 30% or less of the limit.
- Limit the number of times that you let someone pull your credit report. A lot of “inquiries” can hurt your score. With this said, if you need to have a report or two pulled, then by all means do it. But if you have many reports pulled, it's viewed as a sign of desperation. There is a 45 day window for “like-kind” credit inquiries, so all mortgage inquiries pulled within 45 days of each other count as only one inquiry.
- Don't open any new credit accounts until after the closing of your mortgage.
- Review your report regularly for accuracy. Pulling your own report does not show as an inquiry. Both [www.myfico.com](http://www.myfico.com) or [www.annualcreditreport.com](http://www.annualcreditreport.com) are good, legitimate websites to pull your own report.
- We would love to pull your credit report for you and give you a free analysis of where things stand and what you can do to improve your score. The report we pull is a “merged” report from all three credit bureaus and is organized in an easy-to-read fashion.

Finally, be aware that correcting items on a credit report can be very slow and time consuming. The sooner you have your report pulled and know what is on it, the sooner you can begin dealing with any issues that appear.

*Please contact us for more information!*

**Fairfield Mortgage Associates**  
*“When You Want It Done Right!”*  
A Division of Guaranty Bank, FSB



**Phone: 678-279-9000**  
**Fax: 678-279-2000**  
[www.fairfieldmortgage.com](http://www.fairfieldmortgage.com)