



Credit Score



Peer | Fair | Good

Improve Your Credit Score

to purchase a home



Introduction

A healthy credit history and score are among the most important criteria when applying for a home mortgage. If you have poor or damaged credit, you can take steps to rebuild it, but it's essential to understand how credit agencies—Experian, TransUnion, and Equifax—rank your creditworthiness. These rankings can vary based on reporting, but in general, if your score is below 700 (on a scale of 300–850) you'll want to follow the dos and don'ts in this guide to improve your credit and position yourself to obtain a home loan.

The dos and don'ts of building or improving your credit

Your credit is made up of two components: your credit report and your credit score. Your credit report is a detailed record of your financial history, including your payment history and any bankruptcies or liens. This gives the lender a clear picture of how you manage your current and past debts. Your on-time and late payments, collections, and credit usage are just a few factors that contribute to your score. Lenders will evaluate both your credit report and credit score to determine if you're a reasonable risk for a mortgage, what interest rate they will offer, and the amount they will lend.



THE DOs

DO obtain a copy of your credit report.

You can obtain a free annual credit report from all three reporting agencies. Use this information to review your current score and any debts that may hinder your credit standing.

DO consider a secured credit card.

A secured credit card may be a good option if you're just beginning to build your credit history or need to repair it. You can obtain this card by opening an account with a creditor or bank and making an up-front cash security deposit. You can then charge purchases like any other credit card—this positive activity gets reported to credit agencies, helping to build or improve your credit score.

DO try to refinance any student debt.

If you're saddled with a high-interest student loan, consider researching a loan refinancing program to lower your interest rate and reduce your monthly payment.

A lower payment can lower your debt-to-income ratio, increasing your credit score.

DO know your debt-to-income ratio (DTI).

Your DTI is your monthly debts divided by your gross income. This ratio helps lenders determine your ability to pay your mortgage; they generally prefer to see a DTI of less than 43 percent.

DO stay current on revolving debt.

Any late payments (usually thirty days or more) on your revolving debt will result in a negative mark on your score. Even paying just the minimum amount can keep your credit score from dropping. Also be sure to catch up on any past-due bills.

DO use your credit cards.

Use only 1 to 10 percent of your monthly credit limit, and make payments on time. These actions can help build and repair your credit more quickly.

THE DONT'S

DON'T exceed your credit utilization.

Credit agencies determine your score by calculating the amount of your available credit against the amount you owe. If your credit utilization exceeds 30 percent of your available credit, it can affect your credit standing. For example, if you have a \$2,000 credit limit, keep your balance below \$600.

DON'T spend up to or above your credit limit.

Avoid maxing out your credit cards, as this will increase your credit utilization and DTI.

DON'T purchase items that require a hard credit inquiry.

If you're struggling to improve your credit, applying for a new credit card or an auto or personal loan can affect your ability to build back your score.

DON'T cancel credit card accounts.

Building a credit history helps increase your credit standing with the reporting agencies. Old credit accounts are part of this history, so keep them open even if you no longer use them.

DON'T do a debt settlement.

Although it may be tempting, avoid doing a debt settlement with your credit card company, as it can damage your score. Try to work with the debtor to set up a program to pay off your debt instead.

Credit Score Worksheet

Use this worksheet to plan and track your progress as you work to improve and build your credit score. These actions can help you better position yourself to purchase a home.

Order and review your credit report.

Make a list of all past-due bills.
(e.g., medical, loans, car payments, etc.)

Create a monthly budget to pay down debt.

Credit Card/Loan	Total Balance	Minimum Payment	Date Due



Conclusion:

Be patient for your score to improve since it can take some time, and put a plan in place that you can reasonably achieve. Because loan originators will likely use both your score and your report, focusing on both will help you prove your creditworthiness to lenders. Also, don't be afraid to ask for help from a credit counselor or your bank or consult with your real estate agent, who may utilize credit repair agencies.