

# HOW TO UNDERSTAND & IMPROVE YOUR CREDIT SCORE

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Your credit score is one of the most important factors used to decide whether you will qualify for a major loan and what its terms will be. Every day, many would-be borrowers are denied loans, while consumers with strong credit histories are getting great rates on mortgages, car loans and student loans. Understanding how your credit score is formulated is your first step when applying for a loan.

## Take advantage of the rules.

**Too many credit applications can lower your score.** Multiple inquiries signal that you are having trouble successfully securing a loan and may be a credit risk or undesirable borrower. However, multiple inquiries from the same type of lender, such as a mortgage company, are counted as a single inquiry if submitted over a short period of time.

**avoid multiple credit inquiries**

## Plan ahead.

**Don't open new credit card accounts right before applying for a home or car loan.** Having too much available credit can lower your score. Also, the longer you have been at your current job, the better this reflects on your qualifications. If you plan on applying for a loan and will be switching jobs soon, apply before you start your new job.

**stay well qualified**

## The Five Parts of Your Credit Score

1. Your payment history – about 35%
2. How much you owe – about 30%
3. Length of credit history – about 15%
4. New credit – about 10%
5. Other factors – about 10%



source: [www.pucblo.gsa.gov/cic\\_text/money/creditscores/your.htm](http://www.pucblo.gsa.gov/cic_text/money/creditscores/your.htm)

## Reduce your debt.

**Creditors look for an optimal total debt load of around 36 percent of your household income.** If your monthly mortgage, car loan and revolving credit card payments total more than 36 percent of your monthly salary, you will likely need to find a way to lower your overall debt before applying for a new loan.

**reduce your debt-to-income ratio**

## Pay on time.

**The easiest way to raise an ailing credit score is to make all your loan payments on time every month.** Over the span of several months, you will likely see your credit score improve. When making credit card payments, you should set up automatic payments and always pay more than the minimum payment due. This will prevent you from incurring large amounts of interest and will make you a more desirable borrower.

**always pay more than the minimum due**

## Timing is everything.

**Wait 12 months following a credit problem before applying for a mortgage or a car loan.** You will be penalized less for problems that are more than a year old.

**credit problems? wait a year**

## Get your finances in order.

**Avoid credit card purchases prior to applying for a major loan and stay away from independent finance companies with high interest rates, which reflect poor credit management.**

Transferring debt from one card to another is another way to reduce your credit score. Of course, paying off credit cards every month is ideal, but if that is not possible, steadily pay down the debt.

**be disciplined, act wisely**



**avoid independent finance companies with high interest rates**

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Many people make the mistake of determining their budget *prior* to knowing their expenses. Instead, determine what you are actually spending each month and make adjustments where necessary. This will also help you factor in your incidental expenses each month so you can set aside money for these unpredictable expenses.

## INCOME

Take Home Pay  
of Household \_\_\_\_\_

Child Support/Alimony \_\_\_\_\_

Pension/Social Security \_\_\_\_\_

Disability/Other Insurance \_\_\_\_\_

Interest/Dividends \_\_\_\_\_

Other \_\_\_\_\_

**Total Income** \_\_\_\_\_

# It's time to get in (financial) shape!

Ready to buy a home? The first step is to get in good financial shape. You need to know what you make and what you spend. List your income and expenses below.

ITEMS	EXPENSES
Rent/Mortgage _____	
Life Insurance _____	
Health/Disability Insurance _____	
Vehicle Insurance _____	
Homeowners or Other Insurance _____	
Car Payments _____	
Other Loan Payments _____	
Savings/Pension Contribution _____	
Utilities _____	
Credit Card Payments _____	
Car Upkeep _____	
Clothing _____	
Personal Care Products _____	
Groceries _____	
Food Prepared Outside the Home _____	
Medical/Dental/Prescriptions _____	
Household Goods _____	
Recreation/Entertainment _____	
Child Care _____	
Education _____	
Charitable Donations _____	
Miscellaneous _____	
<b>Total Expenses</b> _____	
<b>Remaining Income After Expenses</b> _____	

## Creative ways to buy a home

*If your credit situation is less than ideal, here are a few options for purchasing a new home:*

1. **Research and speak with your real estate agent and lender about local, state and national down payment programs that may be able to cover part or all of your down payment if you qualify.**
2. **Arrange financing through the seller for part of or for the entire purchase price.**
3. **Find a shared equity partner for your home. A family member, friend or third-party investor buys a portion of the home and shares any appreciation when the home is sold.**
4. **Secure a loan from a family member or ask a family member to cosign on your home loan.**
5. **Lease with the option to buy, which will allow you to rent for a period while you collect enough for a down payment. You will likely be able to apply part or all of the rent paid to the final purchase price.**
6. **If you have good income and low debt, apply for a second short-term mortgage to allow for a higher down payment.**