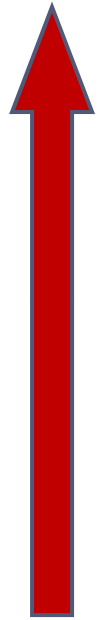


VA-Loan.com

Your credit explained
Tips to raising your score



850



350

YOUR CREDIT



- ▶ Your credit is one of several factors that determine if you can qualify for a home loan. The Department of Veteran Affairs provides minimum guidelines for credit but it is the lender that determines the credit score they will accept. Among the guidelines are:
 - ▶ Credit score must be 620 or higher.
 - ▶ Lenders will look at all 3 credit scores, the middle one is used for loan approval. Example scores 632 / 675 / **657**. The 657 is used.
 - ▶ No bankruptcies in the last 2 years
 - ▶ No 30 day late payments in the last 12 months
 - ▶ No recent collections.



YOUR CREDIT (continued)



- ▶ However, remember that these are just guidelines lender has the authority to decide if they will extend credit to you based on their own requirements. For instance, some lenders will accept a recent 30 day late payment if you have a reasonable explanation. Others might not accept your credit if you had a bankruptcy within the last 3 years!
- ▶ If your spouse will be a co-borrower on the loan, his/her credit is also considered. If your spouse does not work and they have poor credit, consider applying on your own.



BANKRUPTCY



- ▶ If you were unfortunate to have had a bankruptcy, it's still possible to get a home loan. However, lenders expect to see perfect credit afterwards! If you had a bankruptcy and since that time you have been late on any payments, they will consider you **HIGH RISK** and it will be very difficult to find a lender to approve your home loan.



WHAT MAKES UP A CREDIT SCORE?

- ▶ Payment History 35%
- ▶ Balances Carried 30%
- ▶ Credit History 15%
- ▶ Mix Of Accounts 10%
- ▶ Inquiries 10%



PAYMENT HISTORY – 35%



- ▶ You must pay your bills as agreed with no late payments.
- ▶ If you have little to no credit history, your score will be negatively impacted.



BALANCES CARRIED – 30%

- ▶ Keep Balances As Low As Possible
- ▶ If your credit accounts are maxed out, your score will suffer.
- ▶ It is better to have two credit cards with $\frac{1}{2}$ of the limit remaining, rather than 1 card that has no availability at all.



For example:

<u>Credit Card</u>	<u>Balance</u>	<u>Available Credit</u>	
Visa	\$2,500	\$0	Bad
Visa	\$2,500	\$5,000	Better
{ Visa #1	\$1,250	\$5,000	
{ Visa #2	\$1,250	\$5,000	Best option

- ▶ Spread balance between cards (\$1,250 each) = higher credit score
 - ▶ It takes discipline to maintain your available credit balance and not be tempted to use it. If you have the discipline, your score will benefit.
-



CREDIT HISTORY – 15%



- ▶ Longer Credit History = Higher Credit Score
- ▶ Never Close Credit Accounts – If you pay off an account, leave it open! This will add beneficial time to your credit history, which increases your score.



MIX OF ACCOUNTS – 10%



- ▶ You need to maintain different account types.
 - ▶ Installment – has a pre-determined end date (auto loan, home loan, student loan)
 - ▶ Revolving – allows you to pay it down and keep using it (credit card)
- ▶ You should not have more than 1-2 credit cards!



INQUIRIES - 10%



- ▶ Shopping Around?

If you apply for credit with multiple creditors, it will lower your score when each reviews your credit file.

If you are shopping for a home loan and contact multiple lenders, do not give each of them permission to review your credit. Wait until you have decided who to use for your loan.

- ▶ Each inquiry lowers your score by approximately 5 Points!



BLEMISHED CREDIT CAN BE COSTLY

- ▶ Low Credit Score = Higher Interest Rate



- ▶ If your score is 620 or lower, you can expect to pay 1% or more above the normal rate.
- ▶ If you have exceptionally good credit, 760 or higher, you could be eligible for a lower rate than most.



STEPS TO TAKE TO INCREASE CREDIT SCORE



- ▶ Pay past due accounts.
- ▶ Have credit limits increased, but do NOT use it!
- ▶ Keep old accounts active – occasionally charge small amounts and immediately pay it off.
- ▶ If you have a collection more than a 2 years old, leave it alone. If you pay them, the “last activity date” on the account will be updated and this can result in a lower score!



HAVE LATE PAYMENTS REMOVED



- ▶ Contact your creditors and request late payments be removed. Most creditors will not remove an item unless it was their error.
- ▶ Take caution when using a credit repair company, many are SCAMS! The only way to legally improve your credit is to manage the credit you have wisely and wait for derogatory items to get older.



MEDICAL COLLECTIONS



- ▶ If you have a medical collection appearing on your credit report, you may be able to have it removed. If the collection is a result of TRICARE or another insurance company not paying the medical provider, first contact the insurance company. For TRICARE visit www.tricare.mil/bcacdcao/.
- ▶ You can also contact the provider and ask that the item be removed because of no fault of your own. They don't have to remove it, but sometimes they will.



CREDIT MONITORING



- ▶ It's important that you monitor your credit. There are several companies that offer this service, however not all are the same. We recommend www.TrueCredit.com. For about \$15/month you get unlimited access to your report and scores. Plus you are alerted when changes occur, making it easy for you to monitor your progress.



SUMMARY



- ▶ You are responsible for your credit. If your credit is poor, creditors will consider you a high risk and will be reluctant to extend new credit. The best way to improve credit is pay your debts on time and wait for negative items on your report to get older. As time passes, your score will increase.

