It's *Your* Credit. Make It Work For You.

MORTGAGES FROM A TO Z

Whether You Are Purchasing a Home or Refinancing, a Good Credit History Is Essential

Mortgage lenders must determine if you will be both able and willing to repay the debt. To judge your ability to repay the loan, they may look at many factors, including:

- Employment history
- Income and outstanding debt
- Savings patterns and amount of savings
- The type and amount of loan requested
- The amount of down payment or the existing equity in the property

But to determine your willingness to pay the debt, lenders typically look at your credit report and credit score. Don't underestimate the importance of this part of the equation.

- For mortgage lenders your credit score predicts, based in part on your past behavior, how likely you are to repay the mortgage debt. Lenders will use your credit score to help them determine:

- What loan types you are eligible for
- Whether to approve your loan
- What your interest rate will be

A credit score is a number that indicates statistically how likely a borrower is to repay future debts.

Who Determines Your Credit Score?

Most lenders use scores from all of the three major credit bureaus: Equifax, Experian and Trans Union. These private, national credit bureaus collect information to create individual credit records. They then generate credit scores based on that information. Each credit record includes the following data, collected from creditors and public records:

- Identifying information (name, address, employer, social security number and so on)
- Debt and payment history on credit cards, student loans, consumer loans, car loans and so on
- Previous collections
- Tax liens, judgments and bankruptcies
- Inquiries for new credit

The most common credit score issued by all three national credit bureaus is the FICO score. It is named for Fair Isaac Company, the firm that developed the mathematical formula, or "scoring model", that generates the credit score. Credit bureaus plug in the data they have collected about your credit history into the FICO scoring model.

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The FICO score ranks consumers on a scale of 300–850. Higher scores indicate lesser risk of default; lower scores indicate greater risk of default.

Most lenders get credit scores directly from the credit bureaus or from a credit reporting agency that typically gets its scores from the credit bureaus. However, some lenders generate their own credit scores or get scores from a custom credit score developer. But what all these scores have in common is what factors they are based on, and what factors they are not based on.

Factors Considered in a Credit Score

The law is very specific about what may and may not be considered in a credit score. These factors are considered in most credit scoring systems:

- How you have handled credit in the past
- The amount of credit you have compared to your credit limit
- The length of your credit history
- The number and types of credit accounts you have
- How active you are in applying for new credit
- Public records pertaining to credit

These factors are NOT considered in credit scoring systems:

- Race
- Religion
- Gender
- Marital status
- Nationality
- Age
- Receipt of public assistance

How Credit Scores Help Consumers

Credit scores speed up the mortgage approval process for most consumers. The truth is that most consumers represent very little risk and have high credit scores. Credit scores help lenders identify—quickly—which consumers are lower risk borrowers. This speeds up the mortgage approval process for most consumers.

Credit scores are not based on human judgment. Credit scores apply the same standards to everyone. Using credit scores helps lenders treat each consumer objectively. Credit scores are blind to cultural or demographic differences among people.

Important Facts about Credit Scores

Credit scores reflect credit behavior patterns. No one factor, such as a previous collection or a bankruptcy, will be the only cause of a “risky” score.

Credit scores improve as your credit behavior improves. Your score is calculated based on the information in your current credit record, and your recent credit behavior weighs more heavily than your credit behavior in the past. As time passes, the relative weight of a poor mark on your credit record diminishes. However, there are no quick fixes. A short-term improvement will not cause a risky score to improve dramatically.

How You Can Improve Your Credit Score

Pay Your Bills on Time

This is the single most important thing you can do to improve your credit rating. Be sure to pay at least the minimum amount required by the date it is due. The faster you start paying your bills on time, the quicker your credit rating will improve.

Minimize Your Debt

Pay down your high credit card balances. Don't charge close to your credit limits. The closer you charge to your credit limits, the lower your credit rating will be.

Apply for New Credit Cautiously

Don't apply for loans or credit cards that you don't need. The more you apply for new credit, the more you may appear to be taking on more debt than you can handle, and the lower your credit rating may be.

Limit Your Department Store Cards and Finance Company Loans

The more department store cards or finance company loans you have, the lower your credit rating may be. Close accounts you don't use on a regular basis or don't really need.

You Need Credit to Get Credit

On the other hand, having a very limited credit history can have a negative effect on a credit rating. If you don't have a credit history, consider opening an account and using it responsibly, making the minimum monthly payments as required.

About Credit Reports

Review and protect your credit records. Once a year, or before applying for new credit, make sure your credit records are accurate. Check your report at all three bureaus—Equifax, Experian and Trans Union. Each bureau might contain slightly different information. If you've been denied credit, you can get a free credit report by following instructions in the adverse action notice. You are entitled to receive a free credit report annually from each credit repository.

If your credit report contains inaccuracies, contact the credit bureau that compiled the report. The Fair Credit Reporting Act (FCRA) requires the bureau to investigate your disputed items within 30 days. The credit bureau must provide you with written notice of the results of the investigation within five days of its completion, including a copy of your credit report if it has changed based upon the dispute.

The Federal Trade Commission (FTC) is responsible for enforcing the FCRA. The FTC also publishes consumer-related brochures where you can obtain additional information on credit reports. To contact the FTC, call or write:

Federal Trade Commission
Public Reference Branch
6th Street and Pennsylvania Avenue, NW
Room 130
Washington, DC 20580
Phone: (202) 326-2222
Web Sites: *www. ftc.gov/ftc/consumer.htm* and *www. ftc.gov/ftc/morein fo.htm*

To order your credit report by phone or Internet, contact:

Equifax Consumer Services
Phone: (800) 997-2493 Web Site: www.equifax.com

Experian
Phone: (888) 397-3742
Web Site: www.experian.com

Trans Union
Phone: (800) 916-8800
Web Site: www.tuc.com

Contact your Boulder Valley Credit Union with questions concerning your mortgage needs.