Get a handle on your credit rating

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Buying a house is exciting, so don't let your credit get in the way. Having good credit and a good credit score are the keys to getting a great mortgage.

Pay attention to your credit if you want to buy a house because lenders will consider it carefully if you're looking for a mortgage.

Your credit report

Your credit report documents the money you've borrowed, how you've paid it back and how much credit is available to you. This includes credit cards, car loans and student loans. The report also lists any debts that have been referred to a collection agency, as well as any unpaid taxes, liens against you or bankruptcies. The report also indicates how many credit request inquiries were made for you and whether you received credit based on the inquiry.

There are three major companies (Equifax, Experian and TransUnion) that provide credit reports. By law – the Fair Credit Reporting Act – they are required to send you a free copy of your credit report, at your request, once a year. It's a good idea to take a look at your credit report before you start house hunting in case you need to clear up mistakes, discrepancies or boost your creditworthiness.

Your credit rating

When you apply for a mortgage, lenders will look closely at your credit rating, also called your credit score or FICO score. This number, between 300 and 850, is arrived at from information in your credit report and indicates how likely you are to repay your debt. Your FICO score – FICO stands for Fair Isaac Corp., the company credited with creating credit scores in the 1980s – plays a big part in whether you will get a home loan, as lenders consider buyers with FICO scores above 650 to be good credit risks. Thus, the higher your FICO score, the better your credit rating and the greater likelihood of getting a mortgage at the lowest interest rates.

What determines your credit score

Your FICO score helps lenders predict not only if you'll repay your loan but also if you'll repay it on time. Credit scores are based on:

- **Payment history** (35% of score): Do you pay your bills on time? Late payments lower credit scores.
- **Total debt:** (30% of score) How much do you owe overall, from credit cards, student loans, car loans, etc.? Credit cards at or close to their limits can lower your score, even if the amount you owe isn't large.
- **Credit history length** (15% of score): How long have you borrowed money? Lenders like to see a long credit history.
- **New credit (10% of score):** Have you recently applied for a new credit card or debt? If you're looking for a mortgage, now's not the time to take on new debt.
- **Types of credit (10% of score):** Variety is best here, as lenders look favorably on a mix of credit cards, retail accounts, installment loans, finance company accounts, etc.

How to interpret your credit score

If you're looking for a mortgage, you want a high FICO score. Here's what the numbers mean:

- Credit scores from 770 to 850 are considered very good, and borrowers in this range typically get the best credit rates.
- Credit scores above 700 are considered good, and most borrowers' scores fall within this range. In fact, the median U.S. credit score is about 725.
- Credit scores below the mid-600s make getting a loan difficult; borrowers in this range will pay higher interest rates and/or may be required to make larger down payments.

Maintain a good credit score

Because borrowers with good credit scores get the best interest rates and pay less over the life of a loan, you'll save money by maintaining a healthy credit rating. Here's how:

- **Check your credit report.** Get your credit report once a year and review it for errors or other discrepancies. Report any errors you find immediately.

- **Pay your bills on time.** Not paying your bills on time, even if just a few days late, can lower your credit rating. The longer you pay your bills on time, the better your score.

- **Reduce your credit card debt.** Keep your credit card balances low – well below your card limits – and work to pay off debt as quickly as possible.

- **Don't open or close new accounts.** Lenders like borrowers who have long and stable credit histories so don't open new credit cards or close old ones when looking for a mortgage – both scenarios could adversely affect your credit score.

- **Use your old cards.** Add a charge to a credit card you haven't used in a while. Doing this will improve the age of your credit history and make you look like a reliable borrower and good credit risk.

- **Protect your private information.** Never give any personal information (such as your social security number or credit card numbers) over the phone, online or through the mail unless you know the person or company.

Good credit paves the way to many financial advantages, not just a mortgage, so it's worth the effort to keep it healthy.

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