THOROUGHBRED MORTGAGE
AN AFFILIATE OF WELLS FARGO HOME MORTGAGE

Your Credit Score
What it means to you as a Prospective Home Buyer

In the world of Real Estate, the three most important words are "location, location, location." In today's post sub-prime mortgage world, the three most important words are "credit, credit, credit." Today's Prospective Home Buyer needs to understand the importance and significance of their credit score from a lender's perspective.

The credit score is an indicator of the likelihood of a consumer to pay off debt without being more than 90 days late at any time in the future. Credit scores range from a low score of 300 to a high score of 850. In order to (a) qualify for mortgage financing and (b) get the most competitive interest rate in today's mortgage world, I recommend that you have a credit score of 700 or above. A high credit score means a low interest rate and this can save you tens of thousands of dollars in interest over a 30 year mortgage.

I recommend to all my clients that they check their credit score at least once a year. The three main credit reporting agencies (CRA's); Equifax, Experian and Trans Union have created a central website www.annualcreditreport.com, to allow you to get a copy of your credit report.

Many people ask me, "What are the factors that affect my credit score"? The answer is simple but not well known. There are five factors that determine your credit score;

Your Credit Score
What it means to you as a Prospective Home Buyer

1. PAYMENT HISTORY – 35% IMPACT.

This is the obvious one and the most well known component of a credit score. Paying debt on time has the greatest positive impact on your credit score. Delinquencies that have occurred in the last two years carry more weight than older items.

2. OUTSTANDING CREDIT CARD BALANCES – 30% IMPACT.

This indicates the ratio between the outstanding balance and the available credit limit. Ideally, you need to make sure that the balance is below 30% of the available credit limit. In my experience, this is the most common reason for most consumers that have a good payment history, to have a low credit score.

3. CREDIT HISTORY – 15% IMPACT.

The lender is looking to see if you are a seasoned borrower or a neophyte to the world of debt. At a minimum you need to have a 12 month history, ideally you should have a 24 month history.

4. TYPE OF CREDIT – 10% IMPACT.

A mix of Student loans, auto loans, credit cards and mortgages is a more positive mix than just having debt from credit cards. You should always have 1-2 major credit cards open and active.

5. INQUIRIES – 10% IMPACT.

This portion of the credit score is looking at the number of inquiries within a twelve-month period. Each hard inquiry can cost between 2-20 points on a credit score. Note that if you pull a credit report yourself, it will not affect your score.

Remember that the credit score is a computerized calculation. It is a snapshot of your score on the day that it is obtained, and it can fluctuate from week to week.