



## Understanding Credit Scoring & Credit Repair

Credit remediation is a subject consumers often face with fear and trepidation, and for good reason. With the exception of recognizing that the best score wins, the average home shopper knows very little about the whole credit scoring process. Sub-prime borrowers who are eager to move into A-Paper territory often find themselves at a loss when trying to find ways to upgrade their credit history. The good news is there are ways to improve less-than-perfect credit scores *and* obtain a loan for the home you *really* want.



The first step in the process is making sure that you have a current copy of your credit report. Congress recently amended the Fair Credit Reporting Act so that consumers may now receive one free credit report annually. There are three major credit bureaus: Equifax, Experian, and Transunion. Since entries can vary across bureaus, you'll want to request a free report from each of the three companies. It's also important to know just what a good credit score is. Most A-Paper scores generally begin around 680, although this number may differ slightly among lenders. Don't despair if you come up shy, there is always room for improvement. Increasing your score just 5 points can save a significant amount of money. For example, if your score is 698 and you increase it to 703, then you could save yourself thousands of dollars over time as a result of a slight improvement to your loan's interest rate.

While credit repair is necessary for some, it's not the only way to increase your credit score. Even if you have stellar credit, you can enhance your score through these steps:

- Evenly distribute your credit card debt to change the ratio of debt to available credit. Let's say you have a credit score of 665. If you have debt on only one card, and four additional credit cards with zero balances, evenly distributing the debt of the first card could move you closer, and possibly into, that ideal bracket.
- Keep your existing accounts open and active. The average consumer is usually anxious to close credit card accounts that have zero balances, but doing this can cause them to lose the benefits of a long-term credit

history and increase their ratio of debt-to-available credit. The bottom line is don't close those old accounts!

- Keep credit inquiries to a minimum. Each inquiry into your credit history can impact your score anywhere from 2-50 points. When it comes to mortgage and auto loans, even though you're only looking for one loan, multiple lenders may request your credit report. To compensate for this, the score counts multiple auto or mortgage inquiries in any 14-day period as just one inquiry, so try and stay within that time frame.

Remember, credit scores don't change overnight. Improving them requires time and diligent effort on your part, so it's a good idea to get the ball rolling at least three to six months prior to submitting your application for home financing.



If credit repair is what you need, you can either begin the process yourself or seek out a repair service. If you decide to make your own improvements, visit as many websites as possible to get information regarding credit laws and consumer rights. Diligently search through them and educate yourself to ensure that you don't sustain any self-inflicted wounds. A good place to start would be the Federal Trade Commission's website, which contains a wealth of helpful literature.

If you're facing severe or complicated credit issues, then you'll probably want to enlist the assistance of a professional credit repair company. Before you do, be sure to familiarize yourself with the FTC's regulations on credit repair. With over 1100 credit repair companies to choose from, it's important to be certain you are dealing with a reputable firm. Examine the FTC's information on fraudulent practices to avoid falling prey to credit repair scams.

Addressing credit issues can be uncomfortable to say the least. But by taking these steps now, you'll be that much closer to obtaining the home of your dreams.

### **Additional Resources:**

To order your free credit report, go to:  
[www.annualcreditreport.com](http://www.annualcreditreport.com)

To read the Fair Credit Reporting Act, go to:  
[www.ftc.gov/os/statutes/frca.htm](http://www.ftc.gov/os/statutes/frca.htm)

For the Federal Trade Commission's information on consumer credit, go to:  
[www.ftc.gov/bcp/conline/edcams/credit/index.html](http://www.ftc.gov/bcp/conline/edcams/credit/index.html)

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