

The Effects of Credit Score



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In a mortgage lender's eyes, a good credit score translates into lower interest rates for home shopping borrowers. The higher your score is, the less risk you are, and the more likely it is you will pay off your debt. For this reason, borrowers with lower scores usually end up paying higher interest rates on their loans.

If this is you, don't panic. Here are a few guidelines on what you can do to adjust your score and receive a favorable review from the underwriter:

Should I pay off all past due balances and charge-offs?

This is usually a good idea, but you only need to worry about the past due balances and charge-offs that have occurred in the last two years. Items more than two years old have little effect on your current credit score. In fact, if you pay off delinquent items over two years old, it can actually bring your credit score *down* - something you don't want to do. Bringing that score up means you'll get a better interest rate on your loan.

Should I close existing credit card accounts that I don't really use?

"No." Part of your credit score is based upon credit history. Even if you don't use old credit cards much, you will still benefit from the credit history they represent.

Rather than trying to pay off all your credit cards, move part of the debt from one card to another to evenly distribute of debt. Try to keep the ratio of debt to credit limits at about 30% of the available credit or less. If your credit provider will increase your line of credit, the ratio of debt to available

credit is automatically reduced.

When married couples have separate credit card accounts, the debt can be transferred from one spouse to another to clear up credit issues for the other spouse. That spouse with clean credit can be designated as the sole borrower on the loan, but ownership of the home can still go in both names.

What about errors on my credit report?

If you have items that are showing up on your credit report that you know you have already paid, request that these items be removed by the credit bureau. They are obligated to rectify this within 30 days.

If there are items on your credit report less than two years old, if possible, send in your payment and mark the back of the check with the following notation:

"Accepting this check is evidence that the transaction is complete and this charge will be deleted from my credit record."

If necessary, the cancelled check will be proof that the item should be promptly removed from your credit report if it interferes with the closing of your loan.