Understanding credit scores when making a move

Relocation Perspectives

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Having good credit can make it easier to get approved for things like a credit card, a car loan, a mortgage, an apartment lease or even a job. It can also help qualify for lower interest rates when borrowing money, which can save a lot of dollars over the years. So what does good credit mean, and what part does it play when making a move?

WHY CREDIT SCORES MATTER FOR MORTGAGE RATES

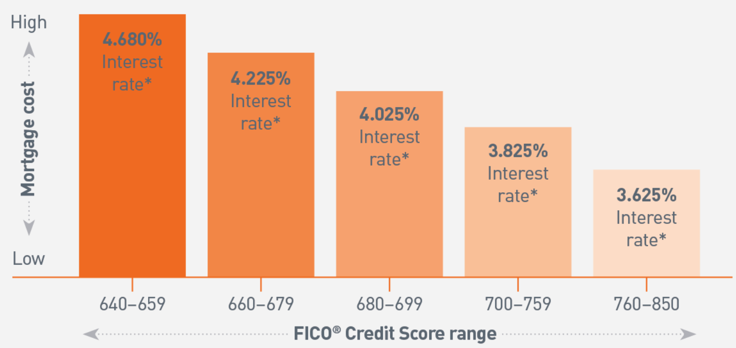
From a lender's perspective, they are lending money for up to 30 years. A credit score gives a bank an idea about whether the borrower is likely to make payments responsibly. And the difference between a good and a great score adds up over the life of a loan. Borrowers with scores of 760 or more typically receive the most favorable rates. Those with scores below 640 often have difficulty getting a conventional mortgage approval, especially without a co-signer, additional collateral or some other factor to warrant an exception. People with scores between these extremes typically pay rates in the middle range.

UNDERSTANDING A CREDIT SCORE

While there are various types of credit scores, the FICO® Score is the most commonly used. Introduced in 1989 by Fair Isaac Corporation, the FICO Score is an objective way to measure and compare how well people handle money.

- A FICO Score ranges from 300 to 850.
- A person's FICO Score is derived from information in their credit report.
- A FICO Score is commonly used by mortgage companies, banks, credit reporting agencies and others to determine whether to grant credit and how much to charge for it.
- Not all credit scores are a FICO Score, though it's used by 90% of top lenders, according to Fair Isaac.

CREDIT SCORE AND MORTGAGE COST: AN INVERSE RELATIONSHIP



Monthly payment	Total payment
$1,552	$558,831
$1,471	$529,716
$1,436	$517,167
$1,402	$504,774
$1,368	$492,537

Based on a sample $300,000 loan, over the life of a 30-year mortgage, the cost difference can add up to $66,294.

*Interest rates reflect general mortgage pricing trends only, not the lending policy of any particular financial institution.

For a $300,000 fixed-rate mortgage and a 20% down payment, a low-scoring borrower could pay $184 per month more than a high-scoring borrower, assuming all other factors (home value, income and other criteria) are held constant. (This doesn't include taxes and insurance.)

HOW A FICO® SCORE IS CALCULATED

A person's FICO Score is based on five individually weighted factors from their full credit report:

- 35% payment history
- 15% length of credit history
- 30% amounts owed
- 10% credit mix
- 10% new credit

Source: myfico.com/credit-education/whats-in-your-credit-score

WHAT THE FICO® SCORE NUMBERS MEAN

Exceptional	**800+**	Well above the average score of U.S. consumers; exceptional borrower
Very good	**740–799**	Above average; very dependable borrower
Good	**670–739**	Slightly above average; most lenders consider this a good score
Fair	**580–669**	Below average; though many lenders may approve loans with this score
Poor	**<580**	Well below average; risky borrower

THE RELATIONSHIP BETWEEN A CREDIT SCORE AND A CREDIT REPORT.

A credit score is derived from a variety of information in a credit report. It allows lenders to make credit decisions efficiently. Credit reports are compiled by three major credit bureaus — Equifax®, Experian™ and TransUnion®. The only way to influence a credit score is by influencing the credit report it's based on.

WHAT'S INCLUDED IN A CREDIT REPORT

- Personally identifiable information: name, address, birthdate, employment information
- Credit account data: type of loan account, credit limit / loan amount, origination date, recent balance and detailed payment history
- Inquiries: list of lenders that have accessed the report; all inquiries are listed in the report, but only inquiries to evaluate a credit application affect the credit score
- Public records: data received from state and county courts, which includes bankruptcies, judgments and referrals to collection agencies

WHAT'S NOT INCLUDED IN A CREDIT SCORE

- Salary
- Job-related details (title, employer, employment history)
- Race, religion, sex, marital status
- Age
- Interest rates on accounts
- Consumer-initiated inquiries
- Promotional inquiries (e.g., for "pre-approved" offers)

8 WAYS TO INFLUENCE A CREDIT SCORE

While there's no way to "repair" bad credit instantly, consumers can optimize their credit reports and scores by disputing any inaccurate information and avoiding red-flag behavior. It's important to know that most negative information on a credit report remains for 7 years. This includes late payments, completed Chapter 13 bankruptcies, foreclosures, collections and public record information. Completed Chapter 7 bankruptcies stay on for 10 years. As negative information recedes into the past, it exerts less influence on the overall credit score.

1. **Take advantage of free credit reports.** By law, all three credit reporting agencies must provide the report free upon request every year. Omissions and factual errors should be reported immediately to the agency. If a loan application is pending, any errors should also be reported to the lender.
2. **Pay bills on time consistently.** Even one late payment can show up on a credit report and take years to disappear. Most lenders and banks have automatic payment systems that help ensure consistent, timely payments.
3. **Contact the lender and/or a credit counseling agency if there's financial trouble.** They can often negotiate more manageable repayment terms. While the adjustment may reflect negatively in the borrower's credit report and FICO Score, it helps re-establish a consistent track record, which can raise the score over time.
4. **Use as little available revolving credit as possible.** Put another way, maintain the lowest possible balance on credit cards and lines of credit.
5. **Do not open unneeded credit accounts.** Taking advantage of promotional rates on credit card offers negatively impacts a credit score. Better to pay off one account at a time, starting with those that have the highest APR.
6. **Close unused credit card accounts.** It can improve a credit score over time, but not immediately.
7. **Compress the time frame when rate shopping.** Since each lender will check the borrower's credit, shopping for rates can result in numerous inquiries. This pattern can reduce a credit score if it occurs sporadically, but it may not impact the credit score if all the inquiries occur within a short period.
8. **Re-establish credit.** There's no quick fix after a credit score declines. The best way to rebuild credit is by opening new accounts slowly, using them responsibly and paying them off consistently.

HOW TO CONTACT THE 3 MAIN CREDIT REPORTING AGENCIES

- **Equifax 1-800-685-1111** or **equifax.com**
- **Experian 1-888-397-3742** or **experian.com**
- **TransUnion 1-800-916-8800** or **transunion.com**

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Contact me to see how we can add value to your corporate relocation lending program.

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