Keeping score counts

By Gleba & Associates

What are you doing to maximize your credit score?

The "good old days" of subprime mortgages with nothing-down and no-doc are long gone. Back are the days of down payments and proof of income. Not only that, borrowers must prove they are creditworthy. A low credit score is almost surely going to cause a mortgage loan to be denied. The higher the score, the more likely a loan is to be approved. Not only that, but it'll get your clients a much lower interest rate. Since credit scores are so valuable, planners are working with clients to make sure those scores are high and remain high.

For example, let's say you are seeking a 30-year, $300,000 fixed mortgage. Your credit score is currently 630, which means you would be paying $100 more per month than ifyour credit score goes up just 10 points morebefore obtaining a mortgage.

So what really makes up a credit score? Despite their importance, credit score calculations notoriously lack transparency and clarity. There are five main components of a credit score:

1. Payment History (35%) - The single biggest factor in determining credit is making on-time payments. Even being one day late on a payment can hurt your score. If you are a good customer with a solid payment record, you may be able to talk to the company and get that late payment taken off of your record.

2. Amounts Owed (30%)-Current debts hurt your overall credit score. When making payments on your credit cards, try to pay above the minimum owed. This will lower your debt much faster and will improve your credit score greatly.

3. Length of Credit History (15%) - Keeping older lines of credit open is usually the best move to make, even if the accounts are rarely used. However, it is possible to have too many accounts/too much credit available, which will actually hurt your score. If you have several old accounts, opening new lines of credit should probably be avoided.

4. New Credit (10%) - If you don't have many lines of old credit, opening new lines will not hurt you, and in fact, may help you. A common myth in the credit world is "the more cards you have, the worse your score." If you don't have many lines of credit, closing an account could hurt you far worse than opening a new one. Also, by not using all of the credit available to you, it makes you look more responsible.

5. Types of Credit (10%)–Varying your credit sources helps your score. If you have a great record of on-time payments from a variety of sources, that will do more for your score than having just one or two credit sources.

At Gleba & Associates knows how to help you raise, and take advantage of, a high credit score. Give us a call and let us keep score for you.

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