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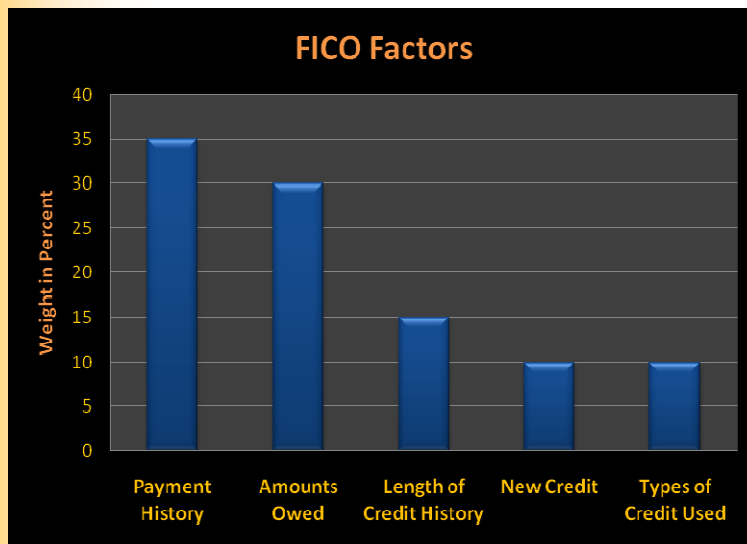
Mortgage MATTERS

Sour Credit? Sweet Solutions!

Successful strategies for mending poor credit and increasing your credit scores

Having credit is a wonderful privilege, but it comes with great responsibility. If you have not fulfilled your obligation to pay your creditors on time, you can be sure that your credit report will reflect your lack of responsibility. This should mean something to you if you intend on obtaining additional credit.

Your credit history determines if, and under what terms, you are granted credit in the future. Fortunately, you can make positive changes to your credit *today*. It is especially important to begin the process of repairing your credit if you are considering the purchase of a home, because the key to your home is your credit history.



Credit Check = Reality Check

If you were offered a free credit check today, would you accept it with pride, or would you be too ashamed to face the reality of your credit history? It may be easier to ignore your credit issues

if you have not managed your finances wisely, but they still exist, and they are still yours. Whether lack of judgment or financial hardship has contributed to your predicament, take ownership, and face these issues head on. There are successful strategies for mending poor credit and increasing your credit scores, and the sooner you implement them, the sooner you will see results.

Credit Reporting Agencies

The first step to repairing your credit is to have an understanding of the credit reporting agencies, also known as credit bureaus, and the purpose they serve. There are three credit reporting agencies in the United States: Equifax, Experian, and TransUnion. Your creditors may report your debt and payment history to some or all of the agencies. Each agency compiles the information and offers it in the form of an organized report to parties who have your consent to analyze your credit record. When a credit report is requested, credit scores are generated by a credit scoring system and are included in the report.

FICO Fundamentals

Next, you must have an understanding of the FICO system. Although several credit scoring systems are used in the world of finance, the FICO system is typically used by mortgage lenders.

FICO scores were created by the Fair Isaac Corporation as a way to measure your probability of non-payment on a loan. Because there are three credit reporting agencies with assorted information regarding your credit history, you have three credit scores. Each score ranges from 300 to 850, and each score fluctuates based on your credit activity. Mortgage lenders generally use the middle score when determining your creditworthiness.

Many consumers know that higher scores reflect

strong credit and lower scores reflect poor credit. It is also widely known that higher scores result in lower interest rates. Getting the best rate possible has been a great motivator for consumers to raise their scores. You will have a better chance at raising your own scores if you know how they are determined. Although there seems to be an unspoken obscurity about how FICO scores are calculated, there is insightful information available to the public.

According to MyFICO, a division of the Fair Isaac Corporation, the following factors are the foundation for their scoring system:

- **Payment history**
- **Amounts owed**
- **Length of credit history**
- **New credit**
- **Types of credit used**

FICO scores are calculated by an undisclosed mathematical statistic using these factors. Within each factor are several key elements. There is great value in familiarizing yourself with these elements if you want to effectively increase your credit scores.

The information used to determine your *payment history* includes the number of accounts paid as agreed; the number of past due items on record; the length of time your accounts have been past due; the payment amounts past due; the length of time since you were most recently past due; and any bankruptcies, foreclosures, charge-offs, or collections.

The *amount owed* category consists of the amount you owe on all accounts; the amount you owe on particular categories of accounts; the number of accounts with balances; the amount of credit used versus the total balance on revolving accounts; and the remaining loan amount versus the original loan amount on installment loans.

Your *length of credit history* is established by the amount of time your accounts have been opened and the amount of time since your last account activity.

The *new credit* category includes the number of accounts you recently opened; the ratio of accounts in regards to the type of accounts you

recently opened; your number of credit inquiries; the amount of time since each credit inquiry; the amount of time since new account openings based on account category; and if you have repaired your credit after previous late payments.

Lastly, the category for *types of credit used* is based on the number of account categories you use and the frequency at which you use each of them.

Creating Credible Credit

Now that you understand the components of the credit reporting agencies and the FICO system, you have the foundation you need to implement the successful strategies for mending poor credit and increasing your credit scores. The following are surefire ways to shift you in the right direction:

1. Keep all revolving debt balances below 30% of your maximum available credit limits;
2. Maintain two to three revolving accounts for 24 months or longer with one of the accounts in an active state;
3. Keep your installment loans in good standing—they seem to be favored by the FICO system;
4. Open a few new accounts and pay them on time to re-establish your credit. If you have difficulty opening new accounts because of your credit history, ask a family member or friend to add you to their credit card, or if you have an old, inactive credit card, make one small purchase with it to reactivate the account; and
5. Keep unused accounts open.

Consistency is essential to using these strategies. If you attempt to mend your credit by using them on a provisional basis, your outcome will not be as favorable. These strategies should be the standard for how you manage your credit indefinitely. This may require you to make changes that take you out of your comfort zone, but if you do what is necessary, you will see positive results. Best wishes!

For More Information

Contact Paul Zagaris at (209) 614-1394 or paulzagaris@pmz.com for a pre-approval today.



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