



02/13/2007

Protecting Your Credit Score to Get a Good Mortgage: Facts and Fiction

When you begin the application process for a home mortgage loan, you will quickly realize that your current credit score is very important. Of course you will want to do everything possible to protect that score in order to get the best interest rate and terms on your future home loan. Your credit score is a computation of several parts of your credit situation. It is calculated based on your timely (or untimely, as the case may be) history of credit payments, how much debt you have vs. your available credit lines, how long you have had credit lines, how often you apply for new credit, and other things like the types of credit you have. Take a look at the following information to learn about some commonly misunderstood things that affect your credit score.

Fiction: Closing credit accounts will improve your score.

Fact: Having too many open credit accounts is not good for your score, but closing them is worse.

Do not worry if you have several open credit accounts. Do not open any more, but do not worry about the ones you already have. What really matters is how much of your available credit you are currently using. So, if you have high debt, do not just pay off one credit card with another one, and then close that account. Instead concentrate on consistently paying down your total debt. You should also realize that by closing accounts you've had for a long time, it looks like you have not had credit for as long and this will probably hurt your score.

Fiction: Pulling your own credit report will hurt your score.

Fact: While too many inquiries from certain credit lenders may hurt your score, checking it yourself will not.

Too many inquiries from credit lenders is considered bad because it makes you look like you are desperate for more credit. When you do need to apply for a home loan, try to do all of your comparison shopping within about a month and a half. All inquiries made in a 45-day period are counted as only one inquiry. The score does not take into account any inquiries that occurred during the previous 30 days.

You can check your own credit score once a year for free by contacting any of the three major credit reporting bureaus (Experian, Equifax, and TransUnion.) You can pull it again during the year for a fee, but it will not harm your credit score.

Fiction: Participating in credit counseling will bring down your score.

Fact: Since 2003, credit scores have not included any account of credit counseling.

Studies have shown that a previous history of credit counseling does not indicate any future propensity for defaulting on debt. Therefore the credit bureaus do not include such information in their score calculations.

If you are able to survive and manage your debts without counseling however, you would do well to forgo the help. This is because mortgage lenders may be scared off when they see you



have needed credit or debt counseling in the past. They may prejudicially feel that you will be more likely to have problems with your finances in the future. So to avoid the higher interest rates they may charge, try to avoid the counseling.

There are plenty of other credit myths out there, so be cautious with information that friends or even mortgage brokers pass on to you. The main thing when getting ready to apply for a home loan is to protect your credit through sound fiscal principles like paying your bills on time and keeping your debt manageable.