THE COWART TEAM HOME LOANS

1127 West Main Street, Richmond, VA 23220

THE BASICS OF **IMPROVING YOUR SCORE:**

Think of your credit score as a hot air balloon weighed down by a lot of sandbags. Cutting the bags loose by removing bad credit will not make the score go up. You MUST also get new credit (heat the air in the balloon) to lift if off the ground. Clients that focus on getting new credit and following the above rules often find their score will improve even if there are several negative items left open.

GENERAL CREDIT SCORING:

PAYMENT HISTORY	Will account for 35% of your credit score. The most obvious way to control your score is to make payments on time – mortgage loans rely heavily on a consistent payment history. These loans are usual larger and will reward points every 6, 12, 18, and 24 months if payments are paid on time. The further in the past your late payments are, the less the impact your score.
HOW MUCH YOU OWE	Will account for 30% of your score. Maxed out revolving debt (credit cards) will result in loss of points. Popular belief is as long as you pay balance in full your score will remain positive – this is not accurate. Maxing out revolving debt will subtract points, however, having 0 balances on a card can also hurt. The suggested method is to keep small balances under 30% of your HIGHEST balance to maximize points. CREDIT SCORING COMPARES YOUR CURRENT BALANCE TO THE HIGHEST BALANCE YOU HAVE EVER HAS ON THE CARD, NOT THE LIMIT OF THE CARD.
NEW CREDIT	Will account for 10% of your credit score. Too many cards reflect poorly on scores, as it gives borrowers more opportunity to create trouble. Opening many new accounts in a short period of time will result in immediate loss in points. Normally, creditors will pull credit score before allowing a new line of credit. If your score is poor, you may have no option but to open new credit lines. This may lower your score short term, but help in the long run.
CREDIT HISTORY	Will account for 15% of your credit score. Installment loans and mortgages with positive payment history will accrue points over time. The older and larger the account, the more value you get in terms of credit points. Closing old installment and mortgage loans (paying in full) will reward positive points. Closing old credit card debt will result in loss of credit points. The older the credit account, the more it helps you!
GOOD MIXTURES	Accounts for the final 10% of your credit score. Ideally, an individual will want a mortgage, installment loan, revolving credit, or a line of credit at some point. The idea is to have a mixture of each type of loan available to give your credit report well rounded consistency. This goes along with the belief that a strong variety of credit will absorb minor credit scuffs and blemishes.
SUMMARY	An ideal credit report will contain all of these factors: payment history, amount of debt, good history to allow new debts, along with a healthy mixture of loans – results in premium A+ credit scores.

UNDERSTANDING THE ACTUAL SCORE:

A+	740-850	C	600-639
A	700-739	D	520-559
B+	680-699	D-	520-559
B	660-679	F	below-520
B-	640-659		

A perfect score is rewarded with advantages in interest rates and financing because of the difficulty necessary to accomplish such scores. Pristine credit scores will drop dramatically with its first delinquency. A new delinquency added to a previously perfect credit report may result in a score drop of 70-220 points. A foreclosure/bankruptcy may result in a drop of 160-220 in points. Mortgage lates 40-100 points, Judgements 10-70 points, collections 10-70 points, and late payments 10-70 points.

The science behind predicting score loss is all about the prior history of the individual. If the credit report was unscathed and a small collection shows up for $300, the A+ borrower may lose 50 points, while the B- borrower may lose 10. If the late payment "fits" the report, then the "punishment" is not so severe.

NEGATIVE ITEMS ON THE REPORT

BANKRUPTCY – 7-10 YEARS TO FALL OFF THE REPORT **JUDGMENTS –** 7-10 YEARS **COLLECTIONS –** 5-7 YEARS

COLLECTIONS

Collections should be paid off based upon how recent the collection is. Newer collections should be paid off right away. Paying off older collections may hurt the score as the payoff reminds the credit bureaus that an older collection was outstanding. If an old collection is not reporting currently, you may not want to pay it off. If you do pay off a collection, DO NOT SETTLE FOR LESS. Insist on paying off the collection in full. Paying off a lesser amount will result in a "charge off" which may continue to hurt your score in the future.

JUDGEMENTS

Paying off judgments will not help your score dramatically however you cannot get a mortgage with an outstanding judgment. You must pay off all judgments. You will need to get a letter of satisfaction from the courthouse and be sure to send it directly to all 3 credit bureaus as the courthouses often do not report settled judgments to the bureaus. Assume that if you don't tell the credit bureau about a settled judgment, then the court has not either.

FORECLOSURE, SHORT SALE AND BANKRUPTCY

You can get a mortgage following these events. However, you have to: be PERFECT on your payments history with no lates, have REESTABLISHED credit by opening up new credit (2-3 lines) and paying them on time for 1-2 years, AND keeping a low balance and showing super responsible use of credit. After a bankruptcy, we find that many clients avoid/stay away from credit because of past experience. Do not fall into this trap! Get back into the credit game to improve your history!

REBUILDING YOUR SCORE

Sometimes, "life happens" and poor credit scores are a result of difficult times. There are ways to make a comeback! Obviously, time is the most important factors in rebuilding credit scores. Assuming time is not an issue, the first thing that must be accomplished is paying off all derogatory debt. Yes, you may lose points by paying off old Judgments, Collections and Charge Offs but the idea is to remove these delinquencies first. These types of delinquencies will stand as weights on the credit score or, if you will, a ceiling. Remove these balances first. Next, obviously is to pay all credit lines that are active on time and pay balances down. If there isn't any positive debt, then open two small credit cards. These cards are to be used in moderation.

Keep balances down near $10 and only use these cards every 2 months or so. This will establish new, clean and manageable trade lines. I suggest a secured card that reports to all credit bureaus. Google “secured credit cards” and look to a bank such as Orchard Bank to open a new secured card. This will require money to do so and the interest rate will be poor, however you do not plan on holding much of a balance, you just need to show on time payments. If you have multiple cards with high balances, to maximize points, pay down one card at a time to 30% or less instead of paying 3 cards down to 70%. Do not close old trade lines because that will result in loss of points, unless there are multiple open accounts. If that is the case, then close the most recent. Stay consistent and then open an installment loan to round off credit report. Assuming the time is taken to follow these instructions then purchasing a new home will be made much easier and financially more sound.

By knowing the rules and process of credit scoring, you can improve your score. For most, it is now if they will buy a home, but when!