

FOR PROFESSIONAL USE ONLY

Credit Score: If I Have Good Credit, Why Do I Care About My Score?

680-850

**This score range is
generally considered
having a good score.**

Your Credit Score Affects Payments

- Your credit score decides your mortgage rate.
- Your credit score can affect your homeowners insurance... when asked a local agent if a good score matters, his response was – “Credit Score is one of the main driving forces of insurance rates.”
- Mortgage Insurance... (MI) is default insurance. The benefit of MI is that you don't have to pay 20% down when buying a home. About every 20 points lower in credit score is considered the next highest risk when determining the monthly portion you pay.

Let's Compare...

The Smiths – 760 Score Debt:

Car Loan → \$450 a Month

Student Loan → \$295 a Month

VISA → \$25 a Month

The Wilsons – 680 Score Debt:

Car Loan → \$450 a Month

Student Loan → \$295 a Month

VISA → Pays off monthly

**Both families pay their bills on time and have the same debt.
Why do the Wilsons have a score that is 80 points lower?**

Let's Dive in Deeper...

The Smiths - 760 Score Debt:

Car Loan...

always paid on time

Student Loan...

always paid on time

Visa...

\$2,000 limit. Always keeps the balance below \$600 and pays on time every month

The Wilsons - 680 Score Debt:

Car Loan...

always paid on time

Student Loan...

had deferred payments for the first 3 years and just started paying last month

Visa...

\$1,000 limit. Uses it for all purchases throughout the month and pays off when they receive the monthly bill

This does not make sense... why do the Wilsons have a lower score?

The Smiths - 760 Score

Car loan...

great account, nothing more
we can do

Student loan... great
account, keep paying on time

Visa...

great account, keep paying
on time and keep balance
under \$600

The Wilsons - 680 Score

Car loan...

great account, nothing more
we can do

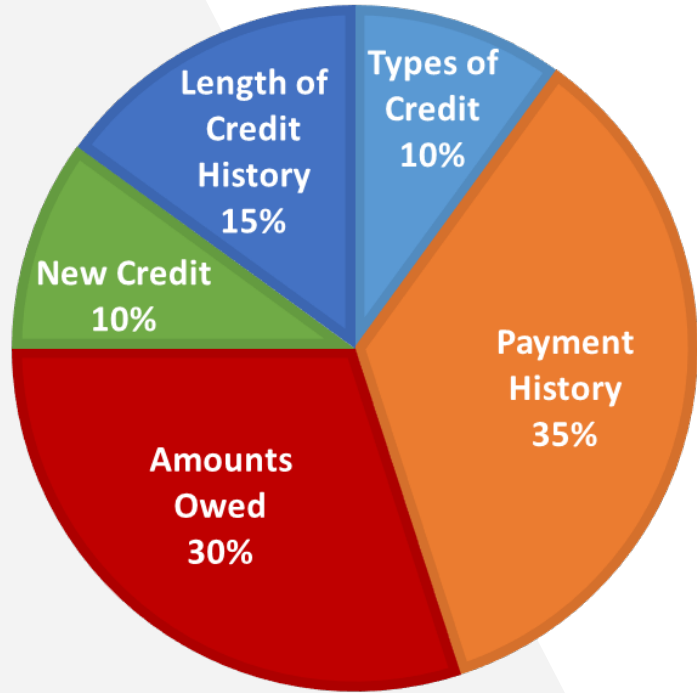
Student loan...

just made the first payment on time
(the credit bureau did not report
monthly while in deferment and
balance increased from initial start)

Visa...

although pays perfectly, must
watch charging close to the limit
every month

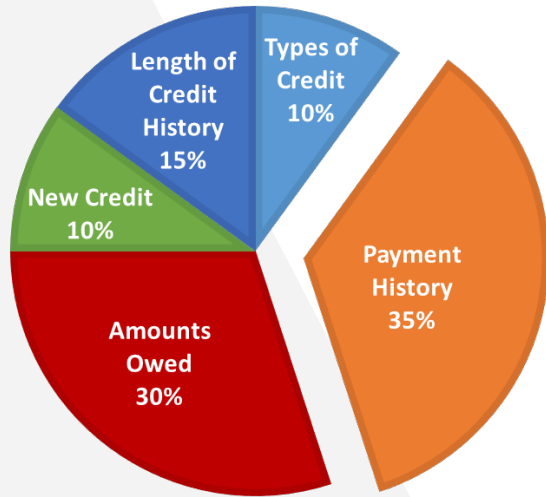
Let's look at the 5 Key Parts of a Credit Score



- **Payment History** – This is where you get credit for making payments on time, and lose points for delinquent credit. Credit history determines 35% of a score.
- **Amounts Owed** – This one is complicated, but in general you want to owe less than 30% of the limit on your credit lines to maximize this section. Amounts owed determines 30% of a score.
- **Types of Credit** – Having a variety of accounts, like a mortgage, a car loan and a credit card is better than just having a mortgage. Credit mix determines 10% of a score.
- **Length of Credit History** – Having some older accounts helps here, so closing out old unused accounts can sometimes hurt. Length of credit determines 15% of a score.
- **New Credit** – Opening too many new accounts in a short period of time, or having credit pulled too often can hurt this section. New credit determines 10% of a score.

Let's look at what was different for The Wilsons

How You Pay Your Bills

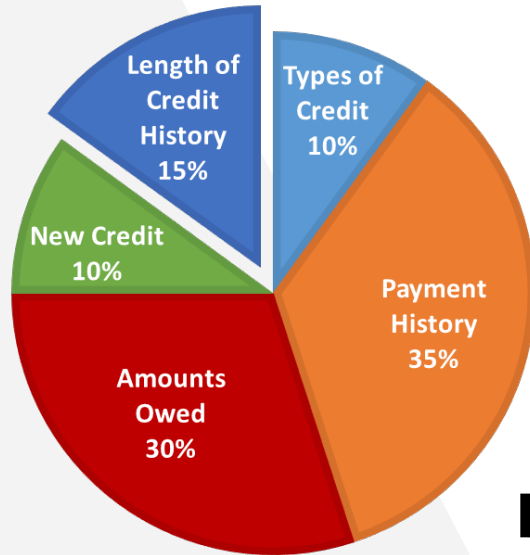


Student Loan - The Wilsons did not get a benefit on the pay history since the payment was deferred.

- How often it's late, how late it is and when was it late?
The **majority of focus is placed on last 2 years** (most recent 11 months more sensitive, with current lates most sensitive) Excluding BK and FC.
- **Time frame items stay on your report**
 - Collections: If old use **caution!**
 - Collections: if purchased by another collection company it will hurt score (ITT, Household, Sherman Acq.)
 - Public records (judgments/liens/bankruptcy, etc.)
- same as bills. The severity and timeframe hurts score. (If it's old leave it alone!)
 - Public records: use date of last activity

Top 5 Items Which Affect Your Credit Score

Length of Credit History



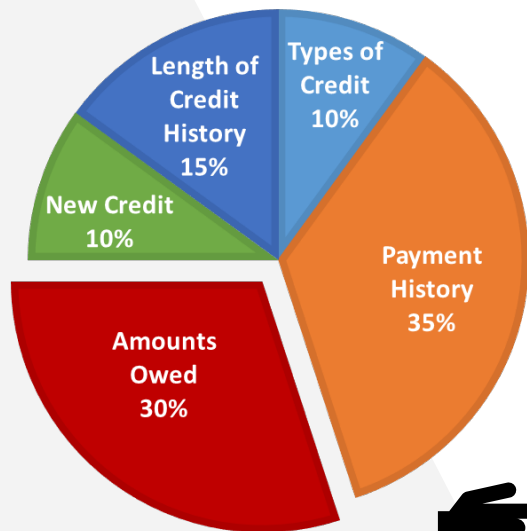
- Length of time account is open
- Credit opened in the last 24 months viewed as a higher risk (risk increases if other negative factors)
- Looks at the oldest time an installment account has been open (look at open date on credit report)
- Looks at the oldest time a revolving account has been open
- Looks at the average age of all accounts
- Remember: needs to be opened 6 months and used once in last 6 months



Student loan – Since the creditor didn't report while the account was in deferment, we are not benefiting on the length of credit history.

Top 5 Items Which Affect Your Credit Score

Credit Utilization

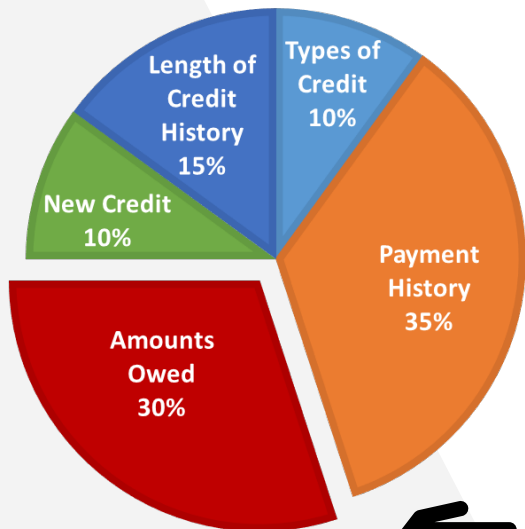


- The amount owed on all accounts
- Revolving only: amount of current balances in relationship to high credit limit individually and collectively
- The percentage owed on open installment loans
- Amount owing on specific types of accounts
- Do check your credit report annually and close any unused cards for security reasons
- Ideally do keep 4-6 accounts open
- Do use these accounts at least once every 6 months
- Do try to keep your balances at 30% of high credit limit
- Don't open numerous accounts simply to try to increase your score
- Don't close old accounts just for your credit score
- Don't increase your credit limit just to achieve the 30% target to improve your score (you'll be tempted to use it)
- Bottom line is to show ability to manage credit

Student Loan- While the student loan was in deferment, interest continues to add up. The balance on this account is higher than where they started.

Top 5 Items Which Affect Your Credit Score

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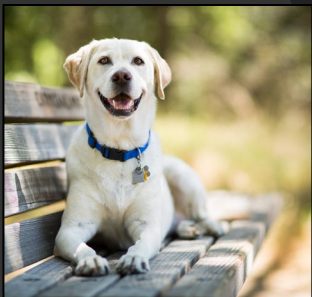
VISA- Although the Wilsons pay this account off every month, the creditor may not report at the same time every month and could show a balance close to their limit when they do.

In Conclusion...

- Even though you may have good credit you can still benefit by having a higher credit score.
- As your credit score goes down: your rate goes up, your Mortgage Insurance payment goes up, your homeowners insurance goes up.
- About every 20 point change in your credit score can change your rate and your mortgage insurance premium.
- Once you hit 760+, it doesn't matter. 760 is the same as 780 is the same as 800 for rates.

THANKS!

Any questions?



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