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Biggest Credit Myths, Mistakes, and Misconceptions

Good credit is well worth the effort it takes to both achieve and preserve it. If you have good credit, the following tips will help you keep it that way. If you are looking to improve your credit, however, now is the time to get started. Give us a call. We'll review your credit and find out exactly where you stand. In the meantime, if you plan on entering into a loan transaction in the next 6 to 12 months, you simply cannot afford to make the following credit mistakes:

Don't fall behind on existing accounts. This includes your mortgage and car payments. One 30-day late can cost you anywhere from 30-80 points or more depending on the other factors being reported on your credit reports.

Don't pay off old collections or charge-offs during the loan process. Paying collections will decrease your credit score immediately due to the "date of last activity" becoming recent. If you want to pay off old accounts, do it through closing, and make sure that 1) you validate that the debt is yours, and 2) the creditor agrees to give you a letter of deletion.

Don't close credit card accounts. If you close a credit card account, it will appear to FICO that your debt ratio has gone up. Also, closing a card will affect other factors in the score such as length of credit history. If you have to close a credit card account, do it after closing, and make sure that it is an account you've opened more recently. Remember, 10% of your credit score is made up of your Mix of Credit, so it is important that you have at least 1-2 major credit cards open and in good standing.

Don't max out or overcharge your credit accounts. This is the fastest way to bring about an immediate drop of 50-100 points in your credit score. Try to keep your credit card balances below 30% of their available on your monthly statement, and especially during the loan process. If you decide to pay down balances, do it across the board. Meaning, make an extra payment on all of your cards at the same time.

Don't consolidate your debt onto 1 or 2 credit cards. It seems like it would be the smart thing to do; however, when you consolidate all of your debt onto one card, it appears that you are maxed out on that card, and the system will penalize you as mentioned above. If you want to save money on credit card interest rates, wait until after closing.

Don't do anything that will cause a red flag to be raised by the scoring system. This would include adding new accounts, co-signing on a loan, or changing your name or address with the bureaus. The less activity on your reports during the loan process, the better.

Don't do it alone. If you feel that the credit challenges you're facing are too much, or you don't have enough time to do the work necessary to improve your own credit, don't lose hope and give up. Give us a call. We can help. In many cases, small changes to your credit profile could yield big results that could save you thousands of dollars on your mortgage. However, if professional credit repair does become necessary, we'll gladly provide you with a referral to an experienced professional credit repair specialist you can trust.

Stay tuned for more great credit tips!

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