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TITLE COMPANY

Steps to Repair Your CREDIT

The idea of house hunting may be more fun than the process. For new homebuyers, the first step before hunting for a new property should be to find a lender to learn how much house you can afford. The catch is that the first thing that lenders want to know is your credit score.

How high — or low — your credit score is can determine everything from what type of mortgage you are qualified for, to the value of your loan's interest rate.

A low score doesn't mean homebuyers can't secure financing, but taking steps to improve that score will help ensure better loan options. Patten Title can help make your dream home a reality with 12 steps to take to improve your credit.

FOCUS ON THE SCORE

Your credit score is a numbers game. The higher it is, the better your chance of getting the best interest rate for your loan. However, before you can fix your credit score, it helps to understand what the score is and how you earned it.

Credit scores range from 300 to 850, and your score is the composition of your payment history, how much debt you've accumulated, and the length of your credit history. An "Excellent" credit score is 800 or above, while a "Good" score is between 670-730.

Securing a loan with a fair credit rating depends on your overall financial picture and the lender's policy. Lenders like to see a credit score above 620, which is required to qualify for a conventional loan. Not to fret if you see a score below 620; you may be eligible for other types of loans.

THE FIX: Each year, you are eligible for a free copy of your credit report from the three major credit reporting agencies — Equifax, Experian and TransUnion. You can learn your score without impacting the number.
Make sure you take advantage of this free service each year and verify that everything is correct. Errors are common and can impact your score (more on that later). The good news is that you can dispute these and fix them before you meet with a lender.

Once you know your score, you can start to take steps to improve it. Some fixes are easy and will move you into a bracket with a better interest rate in three to six months. Others may take a little longer but will be financially beneficial in the long run.

PAY OFF OLD BILLS

Past history sometimes predicts future performance in the eyes of lenders. Payment history is the single biggest factor for qualifying for a mortgage, accounting for 35% of your credit score.

Borrowers with a habit of paying bills late or not at all will see that reflected in their credit scores. An occasional late payment won't affect the overall score, but consistently paying 30 days beyond the due date will lower the number (60 days late often qualifies for collection).

THE FIX: There is an answer for having a spotty on-time payment history, and it's simple: start paying your bills on time. Making on-time payments for three months will raise your credit score, and a six-month streak could completely repair a wounded credit score.

Start by utilizing online payments that can be deducted directly from your bank accounts. Prioritize any bill that qualifies as a

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loan with a hard deadline, including car payments, rent or mortgages, credit cards, and student loans.

If you have any bills in collections, prioritize paying those off quickly. By taking these steps immediately, you should see an increase in your credit score within three months.

FIX CREDIT REPORT ERRORS

Once you've received your free yearly credit reports, look for any errors. Typical credit report errors include a misspelled name, closed accounts reported as opened, duplicate accounts, and errors caused by previous identity theft.

These errors can negatively affect your credit score. For instance, one duplicate account means that your debt is counted against you twice, which lowers your debt-to-income ratio. Lenders will count that against you as you apply for a loan.

THE FIX: The good news is that there's an easy fix to dispute credit report errors by writing a letter to request a correction to the credit agency reporting the problem. This is an excellent time to pull out the pen and paper because while online letters are easy to send off, many agencies recommend against them. After all, you could end up agreeing to arbitration instead of a resolution. Expect the investigation to take 60-90 days before you see improvement in your credit score.

KEEP YOUR BALANCES DOWN

Credit utilization is one way lenders judge your ability to repay a loan. Your "credit utilization" is how much of your available credit you're using. For instance, if you have three credit cards and your total limit is $20,000, and you have $10,000 in debt, your credit utilization is 50%. Lenders like to see your credit utilization under 30%. In this scenario, you'll want to pay off the excess $4,000 to improve both your credit score and your credit utilization. If you have multiple credit cards, focus on the cards with the highest utilization rates.

THE FIX: Pay as much down on the balance as possible before the due date. This tactic usually means paying more than the minimum payment to make a dent in the total balance. One trick is to pay the balance twice a month while using the card less to avoid adding to your debt.

ASK FOR A HIGHER CREDIT LIMIT

Another great way to reduce your credit utilization ratio is to ask for a credit increase while keeping your balance the same or lower. This lowers your utilization rate without any time commitment. For instance, if one credit card has a limit of $2,000, you can ask for an increase to $3,000. If you have $1,000 debt on that card, your utilization ratio for that card alone went from 50% to 33%. This works best if you don't also increase your spending to match the limit.

THE FIX: Asking for a new credit limit is easy: you can call. As long as you keep your debt on that card similar, you should see an almost immediate impact on your credit score. Credit utilization is 30% of your credit score, so the lower your overall utilization, the higher your score.

CO-SIGN WITH A FRIEND OR RELATIVE

Do you have a friend or relative with great credit? You can use their good credit to your advantage. Joining an existing account or credit card with an account holder with great credit is called credit piggybacking and allows you to "ride the coattails" of their credit. Make sure this is someone you

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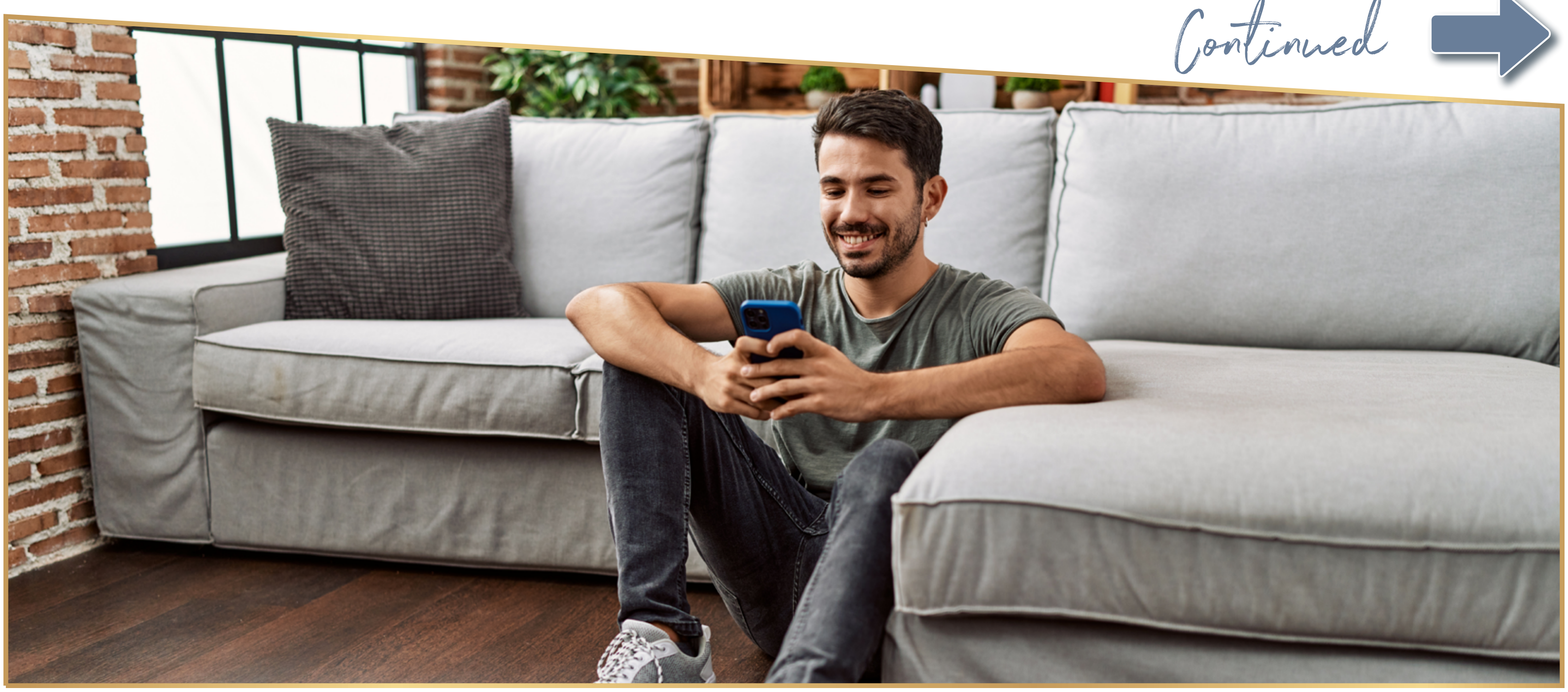

trust — parents, godparents, relatives — and who trusts you not to overspend on the account.

THE FIX: Teaming up with a good credit holder can improve your credit score and works best for people with a limited credit history. This is an excellent tactic if you are trying to build a credit history. Be aware of "for-profit piggybacking," which allows you to pay a fee to piggyback from a stranger's great credit. Fees for for-profit piggybacking can be large, and some banks discourage the for-profit practice.

USE A SECURED CREDIT CARD

Similar to a debit card, you can purchase a prepaid or secure credit card that has a cash deposit amount equal to your credit limit. You prepay the money onto the card and then use it just like a credit card. Your bill is paid automatically after any purchase with the cash balance. Because it's prepaid, you can't exceed your spending limit.

THE FIX: Secured credit cards help you build a credit history if you don't have one or are trying to rebuild your credit. They still count toward your credit score, unlike regular debit cards. One catch is that secured cards tend to have higher interest rates, and you'll need upfront cash to start one.

GET CREDIT FOR YOUR RENT

You get credit for paying a mortgage on time, but if you are renting while saving money to buy a home, your rent goes unrecorded on your credit score. Getting credit for your on-time bill payments is a great way to boost your credit score and enhance your credit history.

THE FIX: Start by talking to your landlord to see if they participate in a rent reporting program that indicates your on-time payment to the three major credit bureaus. For example, in 2022, Fannie May started a pilot program to help landlords report the payments of their tenants. By reporting your rent to the credit bureaus, your mortgage lender can see you have a history of paying your bills on time.

BUILD YOUR CREDIT PORTFOLIO

Even if you pay all of your bills on time and don't hold much debt, your credit score can be impacted if you don't have much credit history. Two ways to improve that are to build your history with additional credit cards or a low-cost loan.

THE FIX: Consider a credit builder loan if your credit history is thin. A credit builder loan is like a savings account but one that improves your credit history. When approved for a CBL, you make monthly "payments" into the loan, which builds as a savings account once the loan is paid off. For instance, if you qualify for a $5,000 CBL, small monthly payments are made until the loan is paid off. Then, you own the $5,000 for a rainy day fund or to help with the downpayment on your home.

AVOID OPENING NEW CREDIT CARDS

Looking at offers available from credit agencies, it's tempting to sign up for a new card to receive a $300 credit for the first $2,500 you spend. These promotional offers are great if you aren't in credit repair mode. Of course, new credit comes with a catch.

Opening a new credit account causes a two-fold problem to your credit score. The first is that every hard check on your credit drops your score between 5-10 points. If you're on the bubble of a credit category, 10 points can be significant. The second problem is that new credit counts for 10% of your total score, and every application remains on your report for two years.

THE FIX: While rebuilding your credit, avoid opening new cards or making large purchases. That also means that large purchases for the new home you're considering — like a refrigerator, furniture, or washer and dryer set — should be avoided until after you've signed your closing papers.

Even More

KEEP YOUR CURRENT CREDIT CARDS AVAILABLE

When you are digging out of a debt hole, it's tempting to ditch your overcharged cards. However, it's best to resist the scissors while you're paying down your debt. Remember that credit utilization is a big part of your credit score and what lenders consider when they approve your loan options. Paying down your debt on existing cards improves your credit utilization. However, if you cancel the cards, that debt is only debt, not utilization.

THE FIX: Keep the cards open as you pay down the balance, making sure not to use them for big-ticket items. As you make progress toward reaching a zero balance, you are creating a new, healthier history that is improving your credit score.

UTILIZE A CREDIT BUILDING APP

If you prefer to keep real-time track of your credit score and debt reduction, install a credit building app on your phone. Most of these apps are free and operate similarly to a calorie-counting app. You are able to monitor your credit score, document a long-term strategy for paying off bills, and some will promote low-interest loans that could be an option for you. Some apps allow you to set up automatic bill payments.

THE FIX: Find the option that works best for you and your lifestyle. Also, check the compatibility with your mobile device. Some to consider include:

- Credit Karma
- Cheese Credit Builder
- Self
- Experian

Consider how each one works before signing up for a service. Some offer help in the form of certificates of deposit (CDs), while others allow you to only take out loans exclusive to their app. Find the app that is right for you.