

WESTPORT~NEWS

On the Home Front

Bi-monthly column by: Linda Skolnick

Improve your FICO Scoring

If you have to ask what a FICO Score is, then I know you have not been reading my article regularly! To quickly review, a FICO score is the score devised by an independent agency that is tallied by the three big credit reporting agencies to determine your “creditworthiness”. For greater detail on FICO scoring, please refer to my *Westport News* article on March 8, 2002.

Now, let’s assume that you completely understand how a FICO score is reached, but you are unhappy with your score, or just want to improve it. What can be done? And as a reward, your improved score will be felt in your wallet. You’ll qualify for more loans and be offered better interest rates.

According to Mortgage Broker, Michael Daversa, principal at Atlantic National Mortgage in Westport, “The very first thing to do is correct blatant mistakes. Your credit score is only as good as the information it carries. Review your reports from all three bureaus (Equifax, Experian and Trans Union) for accuracy periodically or a few months before you are planning to apply for a loan. Changing a mistake on your report can take several months.”

Jeanne Kelly founder of The Kelly Group, a company that specializes in helping clients improve their credit scores, says “When your goal is to get the lowest rate offered, there are four helpful things you can do to help your scores.”

“The first,” says Kelly “is DO NOT open new accounts. The reason being, a new tradeline lowers your credit score short term.”

“Secondly, DO NOT raise your credit card *balances*. Your revolving debt is approximately 30% of your credit score. The lower your revolving balances, the more points added to your score,” explains Kelly.

“DO NOT close accounts either. The existence of accounts adds to your revolving *limit*. The higher limit, coupled with low *balances* as mentioned above, improves your score.” Since the ratio of your credit card balance to your credit limit is important, closing out an account and transferring the balance simply means you increase the ratio, which in turn will lower your score. For example, say you owe a total of \$1,000 on four credit cards, each of which has a \$1,000 limit. Your total limit is \$4,000, of which your total balance (\$1,000) accounts for 25 percent. If you transfer all your balances to two cards and cancel the other two, your total credit limit is reduced to \$2,000, and your \$1,000 balance now accounts for 50 percent of the limit.

“Avoid excessive inquires,” warns Kelly. “The more companies pulling your report lowers your score because inquires give the appearance that you will be acquiring more debt.”

“It is also important,” says Michael Daversa, “to pay your bills on time. Although it is always good practice, it’s especially critical that you are prompt close to the time you need the loan. That is because a late or missed payment in the last few months is likely to lower your score much more than an isolated late payment five years ago.” Daversa explains, “That every credit card payment should be made on time every month. It doesn’t matter if you have missed a \$5 or \$5,000 payment; any late payment is a late payment.”

You may be wise to turn to a well versed Mortgage Broker, like Michael Daversa or a Credit Specialist like Jeanne Kelly to help you if you are overwhelmed or confused.

Strong FICO scores will be a real asset to your loan search if you understand how they work, and you keep your credit in balance. A little time and effort now will pay off big in the end.