ULTIMATE CREDIT GUIDE: JPAL MORTGAGE

WHAT IS A CREDIT SCORE?

Let's start with the dictionary definition. A credit score is a number between 300 and 850 calculated from credit information using a standardized formula.

The score is used by lenders to determine how risky a loan is. The lower the score, the higher the risk (and interest rate). Scores under 600 are generally described as "poor". Scores over 780 are generally described as "excellent". Poor scores don't necessarily prevent you from getting a mortgage but can make it more difficult. This guide aims to help you get and stay in the "excellent" category.

WHAT MAKES UP YOUR CREDIT SCORE?

The exact formula isn't posted for us to study, but the reporting agencies give us the general categories that make up your credit score.

Payment History (35%)

Payment History examines how well you make your payments. This is the most important category! The fewer late or missed payments you have, the better your score will be. It's vitally important to pay your debts on time.

Amounts Owed (30%)

Amounts Owed, also referred to as "credit utilization", measures how much of your total credit limit you use. Most credit cards have a maximum amount you can charge, so using a high percentage of your limit will negatively impact your credit score. We recommend keeping your statement balance (the total balance owed at the end of your statement cycle) at less than 10% of your total credit limit.

Length of Credit History (15%)

The Length of Credit history is simple. It looks at how long you have been managing various credit accounts. It examines how long your oldest account is, the age of your newest account, and the average length of the accounts. A longer history of managing credit adds points to the score.

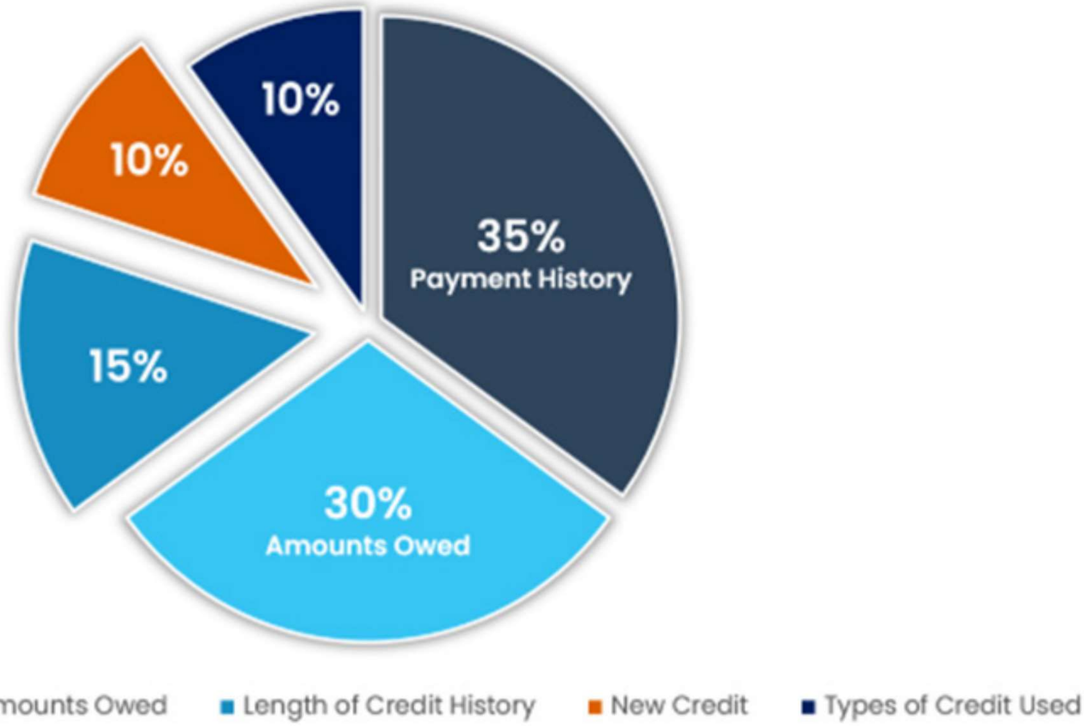
New Credit (10%)

The New Credit category examines how many new credit accounts you have opened. The more accounts you attempt to open in a short period of time, the more your credit score could be impacted. Essentially, the bureaus consider opening new accounts quickly as a sign of rapidly increasing debt, which is risky. This can negatively affect your score.

Types of Credit Used (10%)

Types of Credit considers the variety or diversity of the credit accounts you have. A credit card (revolving debt) is categorized differently than an auto loan (installment debt) and a mortgage (mortgage debt). The credit bureaus like to see that you can responsibly manage different types of credit.

Here's a colorful pie chart to sum up the credit score categories



HOW CREDIT IMPACTS YOU?

Your credit score and credit history have a huge impact on your life. It's not just rates and fees. A negative credit score can affect much more than just your finances.

The Mortgage

This is the big one. The difference between a low credit score and a high credit score could mean thousands of dollars a year in extra interest or mortgage insurance costs. It could mean tens of thousands over the life of the loan (depending on the size of the loan).

Renting an apartment

Landlords and property managers typically review potential tenants' credit reports. They look for a pattern of missed payments or other negative information on your credit report that indicates you might not pay your rent. If you have bad credit, they may require you to pay a larger deposit, get a cosigner, or even reject your rental housing application altogether.

Job Prospects

Many employers (especially in the financial industry) will pull credit during the interview process to look for major delinquencies.

Insurance

Insurance companies create an insurance score which is heavily based on your credit history to determine your auto or home insurance rate. A low score could mean higher insurance premium costs.

Other important things you need/use every day:

Cell phones, utility companies (electric and gas), cable companies, and even dating services may check your credit report with your permission. If you have poor credit, you may be required to have a co-applicant or be denied the account altogether.

WHAT ACTIONS HURT YOUR CREDIT SCORE?

- Paying late no matter the dollar amount.
  - Being late on a $10 payment is looked at the same as being late on a $2,000 mortgage payment.
- Having credit cards that are at or near the total credit limit.
- Applying for new loans excessively.
- Having more credit cards in relation to installment loan accounts.
- Closing out old cards and leaving just new credit. This hurts your “Length of Credit History” category.
- Collections – yuck! A collection is a bill you failed to pay that the creditor sends to a collections agency. The collection agency works to collect the money owed. Their typical first move is to file a “collection” on your credit report. These can greatly hurt a credit score.

SEVEN STEPS TO TAKE TO IMPROVE YOUR CREDIT SCORE

- Check it yourself first! We recommend using www.annualcreditreport.com at least once a year to make sure there aren’t any delinquent or fraudulent accounts on your credit report.
- Continue to pay your debts on time. The further a late payment remains in the past, the more your score will improve.
- Pay collections immediately (if able) and dispute later (if necessary). Don’t wait to pay a collection if you’re disputing the bill. You might be correct, but it could really hurt your score. Pay the item first (if able) and then dispute it if you have a good case.

- Become an authorized signer on a credit card that is well-established. We often recommend this to younger individuals who are building credit for the first time. A parent or family member can add you to their account and it can help boost your score. Just make sure the family member pays their bills on time.
- Pay down balances on credit cards (the magic number is 10% or less of the available credit limit).
- Do you have an active credit card? Even though the credit bureaus don't like to see "maxed out" credit cards, they do like to see credit card activity. Sometimes, charging a small amount to a card (and paying it off when the payment is due) can improve a credit score.
- Reach out to us for a free credit review! We love to examine credit reports and prepare plans to improve them.

KEY QUESTION: IS YOUR CREDIT EVER BEYOND REPAIR?

No. Credit can be fixed. Sometimes it takes a while, but it can also improve quickly depending on the situation. We've helped some individuals increase their credit score dramatically in just a few months. The bottom line is that we are always willing and excited to put a plan together. Let's get to work!