

# What Affects Credit Scores? 7 Misconceptions

By: Gwen Moran

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If you're trying to raise your credit score to get a good rate for a refinance or HELOC, you might be surprised by what affects—or doesn't affect—your score.



Having many credit lines won't necessarily hurt your credit score, so long as you keep balances below 20% of the total credit line. Image: Rob Daly/OJO Images/Getty Images

You have to keep your credit score up in case you want to take out a second mortgage or [home equity line of credit \(HELOC\)](#), or get the lowest premiums on your [home owners insurance](#). Here's the 411 on how various money management tactics goose up or ding your credit score.

## 1. More money improves your credit score, this is False.

Your level or sources of income don't affect your credit score, although lenders may look at it when making loan decisions, according to the Fair Isaac Corp., the company that issues the commonly used FICO credit scores.

## 2. Ownership of several credit cards can hurt your "Credit Score," this is mostly false.

Having many credit lines isn't necessarily a bad thing, says credit expert Liz Weston, author of *Your Credit Score*. Multiple lines give you a favorable debt-to-available-credit ratio. But use them correctly: It's best to keep any balances below 10% or 20% of the total credit line, she says. Anything more will affect the ratio of debt-to-available-credit, which can decrease your credit score. **What truly hurts your credit score is "Revolving Credit Cards or Accounts!"**

## 3. Opening and closing credit lines can hurt your credit score

**True.** New credit applications can decrease your credit score, so be careful about applying for new credit cards or personal loans before applying for a HELOC, second mortgage, automobile loan, or other large line of credit.

**Surprise:** Closing existing credit lines may also hurt your credit score, since it'll damage your debt-to-available-credit ratio. A good rule is; Do not make any credit changes in the months leading up to a major credit request, such as for a HELOC. **Another huge key is** (*please pay attention to this one,*) after being accepting for a mortgage loan and you have *an accepted "Contract Agreement" with a Seller,* **DON'T** charge or take out loans from that point until after the **Real Estate Closing "IS Closed"** and the **"Deed has been transferred into your name!"**

#### 4. Consolidating credit lines will help your credit score,

This is, “**Mostly false.**”

Although it may seem like a good idea to move all your balances to one card that can actually hurt your credit score, since your debt-to-available-credit ratio will spike on that card, says Weston.

However, credit expert Harrine Freeman says such a slight decline isn't necessarily a deal-breaker for a loan, especially if the card has a lower interest rate and will allow you to pay off the balance sooner. Your score will increase as soon as that ratio goes down.

#### 5. Changing jobs can hurt your credit score,

This is, “**Partly true.**” Taking a new job or losing your job doesn't affect your credit score. However, if you have a spotty employment history, lenders may hold that against you in making a loan. Dips in income may signal that it could be difficult to pay bills in a timely manner. **However, changing **JOB/s** within the same filed or classification, this the same income or higher, will not affect your credit score or purchasing power**

#### 6. Co-signing for others can hurt your credit score

This is, “**Partly true.**”

Simply co-signing on a loan for someone else may not affect your score, but if that person is late on paying the loan, it's likely to show up on your report, says Freeman. And that's a nasty surprise if you didn't know the person was late.

7. **Judgments and liens aren't considered in your credit score, this is False.** If you've had a judgment or lien filed against you, it's considered in your payment history, which represents 35% of your score.

*Similarly, while most utility companies don't report payment history to credit bureaus, your account will likely be reported if it is seriously delinquent and referred to a collection agency*

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# Improve Credit Score with These Home Finance Tips

By: Gwen Moran



Almost nothing packs a greater punch to your credit score than a late mortgage payment. Image: Jupiterimages/Thinkstock/Getty Images

Your **credit score** affects how much you'll pay for a mortgage or refinance—or even if you can get one at all. Master the six ways to manage home-related spending to keep your credit score braggingly high.

## 1. Postpone that refinance until your credit is squeaky clean

Even a small blemish on a credit report can cost you at closing. Money expert Denise Winston found that out firsthand: Her husband hadn't paid a \$40 pager charge. The unpaid bill was turned over to a collection agency and ended up damaging his credit score.

Because of that one small unpaid bill, the interest rate on the couple's mortgage was 0.25% higher than if he'd had a clean score. Put another way, that's \$13,000 over the life of the loan.

The lesson; Even small items can damage your financial position. Get your credit report beforehand to see if there's anything damaging. If so, consider postponing a **refinance** or **HELOC** (*home equity line of credit*) until small but potentially costly dings fade over time.

## 2. Pay your mortgage—now

Not all late payments are created equal: Almost nothing hits your credit score harder than a late mortgage payment. Payment history generally accounts for 35% of your credit score, which is bad enough, but credit score agencies consider late home payments graver than late credit card or car loan payments.

In fact, credit score agency VantageScore will knock off more than 100 points beyond what it would do for delinquent auto loans or credit cards.

But if you think you can improve your credit score with early payments, think again. Geoff Williams, co-author of *Living Well with Bad Credit*, says it may make a slightly positive impression on today's risk-averse lender, but it won't make a big difference in getting future credit.

## 3. Cool it on second mortgages and HELOCs

Drawing down a second mortgage or HELOC can have a negative impact on your credit score because 30% of your credit score is based on how much you owe to creditors. However, if you pay the loan on time, it will have less of an impact, says Winston.

Also, you can mitigate the credit score damage of a HELOC by staying within 30% of the limit.

#### 4. Protect your mortgage to protect your insurance rates

Late payments on your mortgage may also affect your home owners and automobile insurance rates, potentially costing you hundreds of dollars a year, says Williams. Insurers may assume that if you're strapped for cash and pay your bills late, you're more likely to file a claim because you need the money.

#### 5. Pay your utility bills and property taxes on time

If you're late on your utility bills and your account is assigned to a collection agency, that agency may report it, causing a drop in your credit score, says Winston. The good news is that utility companies often don't bother to report late bills to credit bureaus until your delinquency becomes serious.

Interestingly, late payment of property taxes won't affect your credit score unless you find yourself with a lien on your property. Since liens are public records, they may appear on your credit report and might cause a drop in your credit score.

#### 6. Refinancing? Beware of taking out equity, too

Refinancing your home generally won't have an impact on your credit score as long as you continue to pay your loan on time, says Williams.

However, if you extract equity in the deal, you could marginally affect your credit score because the amount you owe will increase.

*Gwen Moran is a freelance business and finance writer from the Jersey shore. She's the co-author of The Complete Idiot's Guide to Business Plans and writes frequently about real estate*

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**For more information on, "[How to correct your Credit Score](#)" with ease**, contact Ron @: [www.RonSellsAlabama.Com](http://www.RonSellsAlabama.Com) or [Ron@RonSellsAlabama.Com](mailto:Ron@RonSellsAlabama.Com)

# 5 Reasons for a Mortgage Refinance Other than Lowering Your Payment

By: Barbara Eisner Bayer



*Lowering your monthly payments is nice, but there are other incentives for a mortgage refinance as well. Image: Thomas Northcut/Photodisc/Getty Images*

*Naturally, if you're paying 6% for your mortgage and you can refinance at 5%, you're gonna do it. Although cutting your monthly payment remains an important motive, there are at least five other reasons to consider a mortgage refinance, for long-term savings and convenience.*

## 1. Change your mortgage term

If you decrease the term of your mortgage in a refinance by going from a 30-year to a 15-year, you'll pay a lower interest rate and shorten your total interest costs. You'll build home equity more quickly, and pay off your loan sooner, even though your monthly payments go up.

## 2. Move from an adjustable rate to a fixed rate

ARMs offer low introductory rates, but they also offer long periods of uncertainty that make it hard to budget. It makes sense in a mortgage refinance to go from an ARM to a fixed-rate loan during a low-interest rate environment. You'll get emotional security and your rate won't **fluctuate** with changing economic conditions.

## 3. Take out cash

With a cash-out mortgage refinance, you can turn an intangible asset—accumulated home equity—into a tangible one—cash. It makes sense for a project that will generate long-term benefits, like a **home improvement or funding a child's college education**. However, don't do it for frivolous reasons. Unless you're extremely disciplined, you could find yourself in even deeper debt.

## 4. Consolidate two mortgages

When interest rates are low, a mortgage refinance lets you consolidate your main mortgage and an outstanding home equity loan to realize a lower overall monthly payment. Plus, you'll have only one mortgage payment to make each month.

## 5. Recover from divorce

If your home is jointly owned with your soon-to-be ex-spouse, a mortgage refinance will turn a joint obligation into the responsibility of the person keeping the home. Nothing is more frustrating than tracking down a former spouse who doesn't keep up with his or her end of the mortgage payment.

**Lay the groundwork---** If one of these reasons resonates with you, contact your current lender to see if it'll offer you preferred rates or reduced closing costs on a mortgage refinance. But don't assume the current lender is best: Leave no stone unturned by searching for lenders online and calling community banks and local credit unions.

**No matter which lender you choose, a mortgage refinance for the right reasons can save you lots of money—and that's the best reason of all.**

*Barbara Eisner Bayer has written about mortgages and personal finance for the past 16 years for the Motley Fool, Mortgages.com, and Nursevillage.com, and has been the Managing Editor of MortgageLoan.com, CompleteGrowth.com, and Credit-land.com. She has recently survived the challenge of refinancing her second home*

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