

# How to Improve and Maintain your Credit Score

## Special points of interest:

- Factors that influence your credit score
- How your credit score is calculated
- Improving your credit score
- How to fix flawed credit

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## Your Full Service Mortgage Broker

Nautical Home Lending LLC is your full service mortgage broker. Our focus is quality customer care, timely processing, and efficient closing of your loan. We pride ourselves on outstanding service, in-depth knowledge and expert advice.

Since credit scoring is a critical component in the mortgage decision process, we will help you obtain the highest possible credit score. We will also give you advice on how to maintain that credit score.

Do not be afraid to consult us if you have some current or past credit blemishes, including bankruptcy. Although the time may not be right today to purchase or refinance a home, we can help you achieve this goal in the future.

An improved credit score can save you thousands of dollars over the course of a loan. With a higher credit score, your mortgage options and menu of available products increases significantly.

I hope you enjoy this free guide. Your business is truly appreciated.

Sal Arlia  
Nautical Home Lending LLC



At Nautical Home Lending LLC our licensed professional mortgage originators will take the time to answer all of your questions and help you achieve the highest possible credit score.



## Credit Score vs. Credit Report

### What is a credit score and how does it differ from a credit report?

A credit score is a mathematical calculation based on items included on your credit report such as account payment history, account balances, number of inquires, and the length of your credit history. Your credit score is designed to predict how likely you, as a borrower, are likely to become delinquent.

Your credit score is derived from data gathered from the three major credit bureaus: Equifax, Experian, and TransUnion. These three bureaus track your creditors, your balances, your credit limits, your payment history, and your applications for new credit.



## Credit History

### How long is credit information kept at the credit reporting agencies?

In general, negative credit information such as a bankruptcy, will be kept for 10 years. Other negative items may be reported indefinitely for loans and insurance policies in excess of \$50,000. (See chart on right.) Positive payment information may also stay indefinitely in your account.

Unpaid Tax liens	15 years
Chapter 13 bankruptcy	10 years
Bankruptcies (Chapter 7, 11, and 12)	10 years
Closed or inactive accounts	10 years
Derogatory accounts	7 years
Public Records	7 years

“**Multiple credit inquiries based on credit applications will negatively impact your credit score.**”

## Factors That Influence Your Credit Score

### What is the impact of a low credit score?

If you aren't careful about your credit, you could end up paying dearly for a low credit score. Not only can a low score stand in the way of getting a credit card, a loan for your dream home or dream car, but even if you do get the loan, a less-than-stellar score will make it expensive.

As your credit score decreases, you become more of a credit risk in the eyes of lenders. This means they'll attach a higher interest rate to your loan, and your monthly payments will jump. On the other hand, a high score will lower that interest rate.

Although the score has a big impact, keep in mind that there are other factors that influence the interest rate you get for a loan besides your credit score. These might include things like the type of property you are using the loan to buy, how much of your own money or equity is going into it, the costs the lender pays to make the loan and so on.



## Your Credit Score

### How do inquiries impact my credit score?

Multiple credit inquiries based on credit applications will negatively impact your credit score. However, ordering a copy of your own credit report will not affect your credit score but should only be done once a year. When and how many inquiries are made in a period of time also effects your score.

### Why is a good score important?

Lenders, insurers, landlords, prospective employers, and even utility companies frequently use your credit score to decide whether they want to do business with you. If they do, they also use your score to determine what interest rates, prices, and security deposits to charge you.



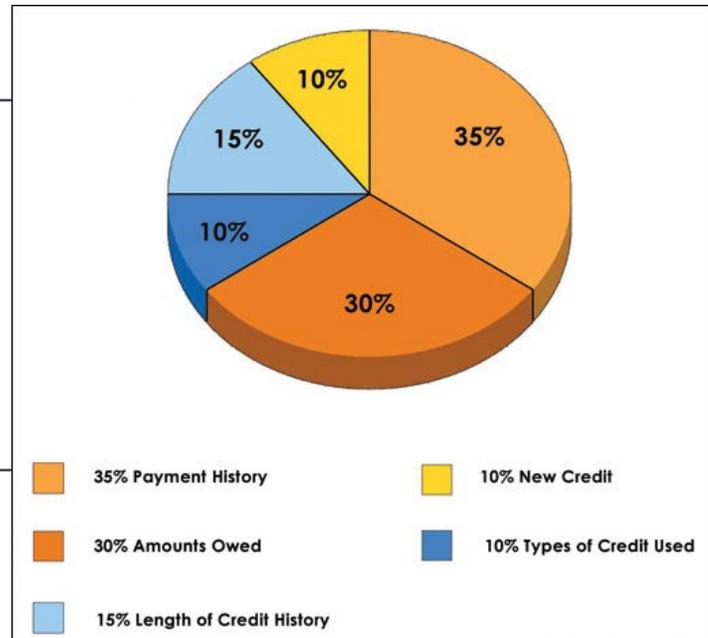
## How is Your Credit Score Calculated?

Credit scores are calculated from many different types of data in your credit report. This data can be grouped into five categories as shown in the pie chart to the right. The percentages in the chart reflect the importance of each of these categories in determining your credit score.

These percentages are based on the importance of the five categories for the general population. For particular groups—such as people who have not been using credit long—the importance of these categories may be somewhat different.

Each of these five segments, payment history, amounts owed, new credit, length of credit history, and types of credit used are each discussed here in detail.

*“Your payment history makes up 35% of your total credit score.”*



### Payment History

**35 percent** of the score is based on your payment history. This makes sense since one of the primary reasons a lender wants to see the score is to find out if (and how promptly) you pay your bills. The score is affected by how many bills have been paid late, how many were sent out for collection and any bankruptcies. When these delinquencies occurred also comes into play. The more recent, the worse it will be for your overall score.

### Outstanding Debt

**30 percent** of the score is based on outstanding debt. How much do you owe on car or home loans? How many credit cards do you have that are at their credit limits? The more cards you have at their limits, the lower your score will be. The rule of thumb is to keep your card balances at 25 percent or less of their limits.

### Length of Credit History

**15 percent** of the score is based on the length of time you've had credit. The longer you've had established credit, the better it is for your overall credit score. Why? Because more information about your past payment history gives a more accurate prediction of your future actions.

### New Credit

**10 percent** of the score is based on new credit. Opening new credit accounts will negatively affect your score for a short time. This category also penalizes **hard inquiries** on your credit in the past year. Hard inquiries are those you've given lenders permission for, as opposed to **soft inquiries**, which include looking at your own score and have no effect on the score. However, the score interprets several hard inquiries within a short amount of time as one to account for the way people shop around for the best deals on a loan.

### Types of Credit Used

**10 percent** of the score is based on the types of credit you currently have. It will help your score to show that you have had experience with several different kinds of credit accounts, such as revolving credit accounts and installment loans.

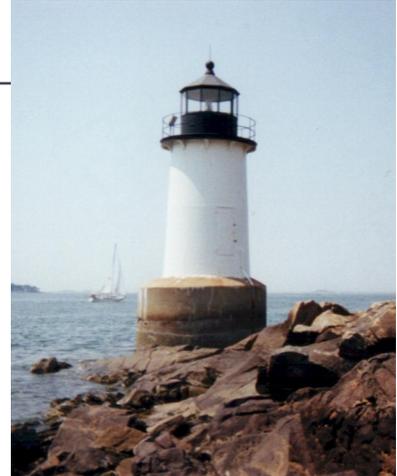
## How to Improve Your Credit Score

It is important to note that raising your credit score is a bit like losing weight: It takes time and there is no quick fix. In fact, quick-fix efforts can backfire. The best advice is to manage credit responsibly over time. **See how much money you can save** by just following these tips and raising your credit score.

### Payment History Advice

Your payment history makes up 35% of your total credit score and can be improved if you:

- **Pay your bills on time.**  
Delinquent payments and collections can have a major negative impact on your credit score.
- **If you have missed payments, get current and stay current.**  
The longer you pay your bills on time, the better your credit score will become.
- **Be aware that paying off a collection account will not remove it from your credit report.**  
It will stay on your report for seven years.
- **If you are having trouble making ends meet, contact your creditors or see a legitimate credit counselor.**  
This will not improve your credit score immediately, but if you can begin to manage your credit and pay on time, your score will get better over time.



*“It is important to note that raising your credit score is a bit like losing weight: It takes time and there is no quick fix.”*

### Outstanding Debt Advice

Your amounts owed makes up 30% of your total credit score and can be improved if you:

- **Keep balances low on credit cards and other “revolving credit”.**  
High outstanding debt can affect a credit score. Try to keep credit card balances at or below 40% of your credit limit.
- **Pay off debt rather than moving it around.**  
The most effective way to improve your credit score in this area is by paying down your revolving credit. In fact, owing the same amount but having fewer open accounts may lower your score.
- **Don't close unused credit cards as a short-term strategy to raise your score.**
- **Don't open a number of new credit cards that you don't need, just to increase your available credit.**  
This approach could backfire and actually lower your credit score
- **Don't transfer an existing credit card balance to a new card with a lower rate.**  
In most cases the new card will have a lower credit limit which would make your credit score decrease.



### Length of Credit Advice

Your length of credit history makes up 15% of your total credit score and can be improved:

- **If you have been managing credit for a short time, don't open a lot of new accounts too rapidly.**  
New accounts will lower your average account age, which will have a larger effect on your score if you don't have a lot of other credit information. Also, rapid account buildup can look risky if you are a new credit user.

## New Credit Advice

Your new credit makes up 10% of your total credit score and can be improved if you:

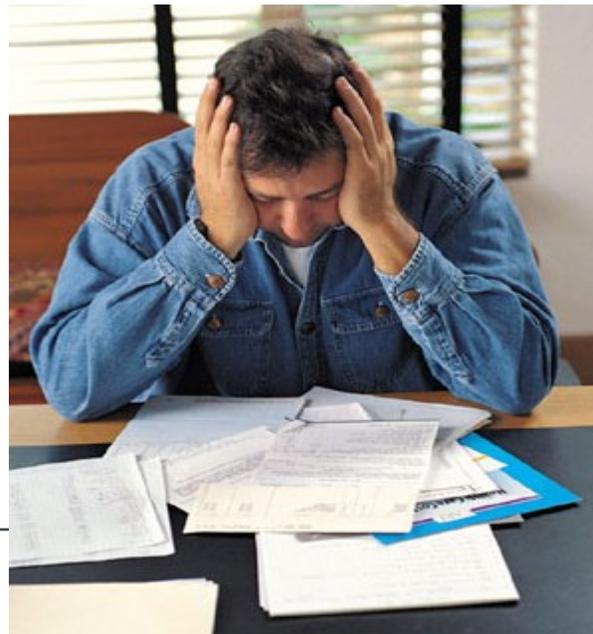
- **Do your rate shopping for a given loan within a focused period of time.**  
Credit scores distinguish between a search for a single loan and a search for many new credit lines, in part by the length of time over which inquiries occur. Inquiries for a loan should be occur within a two week period of time.
- **Re-establish your credit history if you have had problems.**  
Opening new accounts responsibly and paying them off on time will raise your credit score in the long term.
- **Note that it's OK to request and check your own credit report.**  
This won't affect your score, as long as you order your credit report directly from the credit reporting agency or through an organization authorized to provide credit reports to consumers.

*“Establishing or re-establishing a good track record of making payments on time will raise your credit score”*

## Types of Credit Used Advice

The types of credit you use makes up 10% of your total credit score and can be improved if you:

- **Apply for and open new credit accounts only as needed.**  
Don't open accounts just to have a better credit mix - it probably won't raise your credit score.
- **Have credit cards, but only if you can manage them responsibly.**  
In general, having credit cards and installment loans (and making timely payments) will raise your credit score. Someone with no credit cards, for example, tends to be higher risk than someone who has managed credit cards responsibly.
- **Note that closing an account does not make it go away.**



## Credit Advice

- **A credit score takes into consideration all 5 of these categories of information, not just one or two.**  
No one piece of information or factor alone will determine your score.
- **The importance of any factor depends on the overall information in your credit report.**  
For some people, a given factor may be more important than for someone else with a different credit history. In addition, as the information in your credit report changes, so does the importance of any factor in determining your score. Thus, it's impossible to say exactly how important any single factor is in determining your score - even the levels of importance shown here are for the general population, and will be different for different credit profiles. What's important is the mix of information, which varies from person to person, and for any one person over time.
- **Your credit score only looks at information in your credit report.**  
However, **lenders** look at many things when making a credit decision including your income, how long you have worked at your present job and the kind of credit you are requesting.
- **Your score considers both positive and negative information in your credit report.**  
Late payments will lower your score, but establishing or re-establishing a good track record of making payments on time will raise your credit score.

## 5 Ways to Improve Your Credit Score Now

1. **Review your credit report and correct errors that you find.** A shocking percentage of credit reports contain errors--one study concluded as much as a quarter of reports list wrong information that hurt the individual's score [source: CNN Money]. Getting rid of these negative mistakes can improve a score dramatically.
2. **Keep old credit accounts, even if you are not using them.** Creditors look at the debt-to-credit limit ratio and the average age of your accounts.
3. **Pay your bills on time.** Assuming that there are no big errors on your report, punctual payments are the most effective way to improve your score. If you look back to the page on score breakdown, you will see that the payment history is the most weighted of all elements of your score. This has to do with whether you pay debts back on time and in full. This may take time to raise your score dramatically, but you will see slow and steady improvement.
4. **Do not let anyone make an inquiry on your credit report unless you absolutely have to.** In general, the more inquiries, the lower your credit score. However, if you are shopping for a loan, make sure multiple inquiries occur within two weeks, so they can count as one inquiry on your score.
5. **If you are planning on applying for a big loan, such as a mortgage, do not open new credit card accounts just to increase your available credit in the hopes of raising your score.** Opening new accounts will at first have a negative impact. In the long term, how-



*“one study concluded as much as a quarter of reports list wrong information that hurt the individual’s score”*

## 4 Credit Killers

1. **Carrying big balances: Running up piles of debt is never a good idea.** Keeping a big balance on a credit card can increase your credit utilization ratio, which is the percentage of your credit limit that you use.
2. **Defaulting:** The most obvious credit no-no is defaulting on a loan or credit card, which means you fail to pay back the amount owed to a lender. The biggest hits come from declaring bankruptcy or foreclosing on a home, which can easily slice 100 points or more from a credit score.
3. **Not having a credit card:** A growing number of Americans are ditching credit cards as they turn to debit and prepaid cards instead. But while this may keep you safe from debt, it's not going to help your credit score. Without any credit history, you're typically considered un-scoreable, meaning there isn't enough activity on your credit file to calculate a score.
4. **Co-signing:** It's tempting to help out a friend or relative by co-signing a loan when they can't qualify on their own. But it's a huge risk to take, and it can often result in ravaged credit. By becoming a co-signer, you're assuming equal responsibility for the amount owed, meaning any late payments or defaults will show up on your credit report and your score will suffer accordingly. You could also end up facing collection action or even lawsuits.



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Nautical Home Lending, LLC, located in Plymouth, MA is a client focused, licensed mortgage broker. We work for you. We have built our business on the referrals of satisfied clients. All loans are processed in a thoughtful, timely and efficient manner. We are constantly searching for new products to meet the changing needs of our client base. With our expertise and in-depth knowledge of the Massachusetts real estate landscape, we will guide you to the mortgage solution that works best for you and your family.



### How to Fix Flawed Credit

Errors in a credit report not only are a nuisance but often lower your score, which in turns results in higher borrowing rates.

1. Obtain your three credit reports and scrutinize them for errors. The three national credit bureaus are Experian, Equifax and TransUnion. Request all three for free once a year at [www.annualcreditreport.com](http://www.annualcreditreport.com) or call 877-481-6826. You can monitor your credit standing during the year by staggering requests from each of the three bureaus every few months.

2. Dispute errors directly with each credit bureau in writing. Send copies of all documents that support your claim. Also send a copy of your credit- bureau dispute-along with documentation, directly to the creditor that provided the information. Credit bureaus have 30 days to investigate and correct errors.

3. If errors that were supposed to be corrected continue to appear on one or more credit reports months after your initial complaint, file a new dispute with the offending creditor. This time include a copy of the documented correction that you already won, and file a complaint about the creditor with the Federal Trade Commissions.

4. Ask lenders to recalculate your interest rate based on the correct information. If a lender, insurer or other party based its rate on your error-filled report, the credit bureau is required to send corrected copies to those companies asking. Ask lenders for new rates based on your improved score.

5. Fixing Fraud - If errors on your credit report were due to identity theft, you have a right to block the credit bureaus from reporting specific accounts opened by the thief. You can even block credit-application inquires. To accomplish this, you must file an ID theft report with the three credit bureaus.