



The Ultimate Guide to Credit Health



Your Path to Financial Growth,

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The Ultimate Guide to Credit Health

Your credit health is an essential factor in achieving financial freedom, securing loans, and saving money. In this guide, we will break down everything you need to know about maintaining a strong credit profile and improving your FICO Score, the most widely used credit score in lending decisions.

What is a FICO Score?

A FICO Score is a three-digit number ranging from 300 to 850, used by lenders to determine your creditworthiness. It's based on data from the three major credit bureaus: Experian, TransUnion, and Equifax. Over 90% of U.S. lending decisions rely on FICO Scores.

The higher your score, the lower the perceived risk to lenders, leading to better interest rates and loan approvals. A score of 720 or higher is typically considered good, while 800+ is exceptional.

Why Your Credit Health Matters

Your FICO Score affects:

- **Loan Approvals:** Determines if you qualify for mortgages, auto loans, or credit cards.
- **Interest Rates:** Higher scores lead to lower interest rates, saving you thousands over time.
- **Financial Opportunities:** A good score opens doors to better financial products and terms.

For example, a borrower with a FICO Score of 760 could save nearly \$94,000 in interest on a \$280,000 mortgage compared to a borrower with a 620 score.

Top Reasons Why Your Credit Score Drops

Here are some common reasons why your credit score might drop. Understanding these factors can help you take steps to maintain or improve your score.



- **Missed or Late Payments** – Payment history makes up 35% of your score. Even one late payment can have a significant impact.
- **High Credit Utilization** – Using more than 30% of your available credit limit can lower your score.
- **Closing Old Credit Accounts** – This can shorten your credit history, which accounts for 15% of your score.
- **Too Many Hard Inquiries** – Applying for multiple credit accounts in a short time can be seen as risky financial behavior.
- **Errors on Your Credit Report** – Mistakes or inaccuracies can unfairly lower your score. Regularly check your credit report for errors.
- **Defaulting on Accounts** – Charge-offs, collections, bankruptcies, and foreclosures are severe negative marks on your credit report.
- **Having Multiple Credit Cards** – Managing too many cards can lead to missed payments or confusion, negatively affecting your score.
- **Banks Cancelling Auto-Pay** – If your auto-pay setup fails, it can result in late or missed payments, damaging your credit.



5 Key Factors That Determine Your FICO Score

Your FICO score plays a crucial role in your financial health, influencing your ability to secure loans, credit cards, and even rental agreements. Knowing what impacts your score can help you make informed decisions and improve your creditworthiness.

Here are the five key factors that determine your FICO score:

- 1. Payment History (35%)** – The most important factor. Paying bills on time is essential, as even one late payment can have a significant impact on your score.
- 2. Amounts Owed (30%)** – Also known as credit utilization, this measures how much credit you're using compared to your limit. Keeping balances below 30% of your available credit is ideal.
- 3. Length of Credit History (15%)** – A longer credit history positively influences your score. Avoid closing old accounts unless necessary, as this can shorten your credit age.
- 4. Credit Mix (10%)** – A diverse mix of credit types (credit cards, installment loans, mortgages) can boost your score, showing lenders you can handle different types of credit responsibly.
- 5. New Credit (10%)** – Opening too many new credit accounts within a short period can lower your score. Be mindful of applying for new credit too frequently.



Fannie Mae Loan-Level Price Adjustments

Fannie Mae applies Loan-Level Price Adjustments (LLPAs) to conventional loans based on credit score and loan-to-value (LTV) ratio. These adjustments impact your mortgage rate and costs.

Here's a breakdown:

Credit Score Range	LTV ≤ 60%	60% < LTV ≤ 70%	70% < LTV ≤ 75%	75% < LTV ≤ 80%	80% < LTV ≤ 85%	85% < LTV ≤ 90%	90% < LTV ≤ 95%	95% < LTV ≤ 97%
≥ 780	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
760 – 779	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
740 – 759	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
720 – 739	0.250%	0.250%	0.250%	0.250%	0.375%	0.500%	0.750%	0.750%
700 – 719	0.500%	0.500%	0.500%	0.500%	0.750%	0.875%	1.000%	1.000%
680 – 699	0.875%	0.875%	0.875%	0.875%	1.000%	1.250%	1.500%	1.500%
660 – 679	1.500%	1.500%	1.500%	1.500%	1.625%	1.875%	2.250%	2.250%
640 – 659	2.250%	2.250%	2.250%	2.250%	2.500%	2.750%	3.000%	3.000%
620 – 639	3.250%	3.250%	3.250%	3.250%	3.500%	3.750%	4.000%	4.000%

Example: A 1.000% LLPA on a \$300,000 loan equals \$3,000 in added costs. Higher scores and lower LTVs reduce LLPAs, saving you money. For more information, consult the Fannie Mae LLPA Matrix.



Common Credit Score Myths Debunked

There's a lot of misinformation about how credit scores work, and believing these myths can sometimes do more harm than good. Understanding the truth behind these misconceptions can help you make better financial decisions and maintain a strong credit profile.

Here are some of the most common credit score myths—debunked.

Carrying a Balance Improves Your Score

Myth: Keeping a balance on your credit card boosts your credit score.

Fact: Paying off your credit cards in full each month is more beneficial. Carrying a balance can increase your credit utilization ratio, potentially lowering your score.

Closing Unused Credit Cards Helps

- **Myth:** Closing old or unused credit cards will improve your credit score.
- **Fact:** Closing accounts can reduce your available credit and shorten your credit history, both of which may negatively impact your score.

Checking Your Own Credit Hurts Your Score

- **Myth:** Reviewing your own credit report lowers your credit score.
- **Fact:** Personal credit checks are considered soft inquiries and do not affect your score.

Marital Status Affects Credit Scores

- **Myth:** Getting married merges your credit scores with your spouse.
- **Fact:** Everyone maintains an individual credit score, regardless of marital status.

Income Influences Credit Scores

- **Myth:** Higher income leads to a better credit score.
- **Fact:** Income is not a factor in credit scoring models; they focus on credit behavior.

By dispelling these myths, you can make informed decisions to effectively manage and improve your credit health

What Does NOT Affect Your FICO Score?

FICO does not consider:

- Age, race, religion, or marital status
- Income or employment status
- Zip code or location



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