

## **What Your Credit Score Means to Lenders**

Interest paid on a mortgage can add up to hundreds of thousands of dollars over the life of a loan, and the most influential determinant of your interest rate is your credit score. Usually, the higher your score, the lower your interest rate. On a loan as large as a mortgage, a mere percentage point up or down can add up to a significant amount of money.

As you know, credit is extremely tight these days, and lenders are taking extra care in selecting whom they offer a loan. Typically, a FICO score around the mid-600s and under will have a difficult time securing a mortgage. It is possible, but with a low score your interest rate will be much higher than if you had a score in the 700s. Standards have not always been so restrictive; the industry has changed in recent years.

Though your score can go all the way up to 850 on the FICO scale, a score of 740 or more should qualify you for the best mortgage rates from most lenders. The mortgage rates offered to applicants can vary by a full percentage point or more, translating into thousands of dollars over the life of a 30-year loan.

For example:

If your credit score is in the upper 700s, and you apply for a home loan in the amount of \$300,000, you may be able to get an interest rate as low as 4.892%. In this case, over the life of the loan you'll pay \$272,659.82 in interest, not including taxes or insurance.

If your credit score is lower and you apply for the same loan, you may get an interest rate that is a whole percentage point higher. In that case, you'll pay \$340,034.68 in interest.

This means you would save \$67,374.86 in interest if you had a higher credit score. Please note that these numbers are for illustration purposes only, and are not a guarantee of securing a specific interest rate.

## **What do lenders look for?**

Lenders prefer borrowers with low balances, a long history of on-time payments and a mix of credit types - for instance, a car loan and a couple of revolving accounts such as credit cards.

You may think you have perfect credit, but if you plan on buying a home, check your report sooner rather than later. The ideal time to check out your credit report and score is up to a year before making your home purchase, which will give you time to clear up any possible errors.

To check your report, go to [AnnualCreditReport.com](http://AnnualCreditReport.com) where you can get free yearly reports from Experian, TransUnion and Equifax. Make sure you get reports from all three. The information they contain can vary wildly, and lenders usually look at all three to determine your credit worthiness.

## **What you can do**

If you're thinking of buying a home in the near future, try not to apply for new credit. Though it's not always avoidable - for instance, if you need a car loan or college financing - you should resist opening several new lines of credit at once.

Transforming your credit report won't happen overnight, but with time and consistency anyone can raise their score and save a ton of money in the long run.

Next week, our final week of the credit score series, we'll look at specific factors that hurt your score, and help you find ways to avoid them.