

Your Credit Score Can Save You Thousands of Dollars or More!

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Do you want to buy an investment property, a home to live in, a car, a boat or any other large purchase? Well, most people decide to use a loan for each of the above. You go to a bank and talk to a representative, sign some papers and: Presto! You have a loan. Well, not exactly. Before any lender will give you money, they look at your credit worthiness. This will determine how much risk there is in lending you money by analyzing the likelihood you will pay your debt. If you are high risk, your interest rates will also be high. What some people do not realize is what makes them high or low risk.

There are several credit bureaus that analyze your credit worthiness, but the scoring formula we are concerned with is a FICO score by the Fair Isaac Corporation. This is the score the mortgage brokers pull when you want to purchase a home. The scores range from 300 to 850 and indicate your likelihood of being 90 days late or more on a loan obligation. The higher your score is the lower your risk and the better your interest rates.

The graph illustrates interest rates associated with varying FICO scores on a \$500,000 30-year fixed mortgage loan. If your score is at 620, your interest rate could be near 7.879 percent with a monthly payment of \$3,626.74. Increasing your FICO score 60 points can save you tens to hundreds of thousands of dollars in unnecessary interest. To be exact, you would save \$431.79 each month and \$155,444.40 over the life of the loan. Imagine what you could do with all that extra cash.



Let's stretch this even farther. If you could raise your score 100 points to 720, your interest rates would drop to about 6.099 percent making your monthly payments even less. Your total savings would now be \$214,950.40 over the life of the loan. Improving your FICO score is an incredible benefit and can save you lots of money. Even if you could raise your score 20 points, you still could save close to \$60,000. Remember interest rates constantly change, but with this example you can see how your creditworthiness can save or cost you a small fortune over your lifetime.

To improve your score, you need to know a few basics. There are five factors that make up a FICO score: past delinquencies (35 percent), revolving debt ratio (30 percent), average age of credit file (15 percent), mix of credit (10 percent) and inquiries (10 percent). In the following issues of Creative Real Estate Magazine, I will discuss in detail each of these factors and how you can use them to increase your FICO scores, credit-worthiness and save a tremendous amount of money.