# Five Ways to Clean Up Your Credit Score

**Presented By**
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Talk about a customer who had a late payment of $7 on a warranty payment for a car. The customer forgot to pay it 2 months and it went on the credit report. This eliminated the chance for a conventional loan and instead the prospective home owner had to go to an FHA loan which required a huge mortgage insurance payment along with the mortgage payment.

Have you noticed your Facebook friends posting pics of their newly cleaned, organized, spruced, and shampooed closets, rooms and carpets? I certainly have - seems like the urge to tackle those big “Spring Cleaning” projects is in the air! Seeing those photos on social media is strange, as without the before, the after is not necessarily too exciting (looks like a big empty garage to me!). It doesn’t matter what time of the year it is. Occasionally, we have to perform “Spring Cleaning” on our financial matters to make sure our credit is in good standing. When buying real estate or making any large purchase, you want to make sure you are getting the best interest rate and terms possible.

But I understand the urge to post them -- “Spring Cleaning” is one of those tasks that is daunting and dread-making until you’re done, and you feel the great sense of accomplishment, freshness and possibility of your post-cleaning space.

Removing clutter at home removes obstacles to mental clarity by stopping up those little nagging drains that leak a little bit more of your energy every time you see that pile of papers that need shredding or the boxes of toys your kids no longer use. And the same goes for Spring Cleaning your credit report in advance of kicking off your house hunt. It’s stressful to have little credit report glitches get in your way and hold up the process after you’re already in heated house hunt mode.

Getting out in front of potential financing issues by doing a DIY credit cleaning gives you the chance to remove all those glitches and obstacles to a smooth loan approval, underwriting and home buying transaction.

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Here's how to do-it-yourself:

**1. Do one scan for flat-out errors.**

Go to AnnualCreditReport.com and order your credit reports from all three reporting bureaus: Experian, Equifax and TransUnion. Look for accounts that aren't yours, that have long been closed or otherwise are erroneously reported (e.g., payments listed as late that were actually on-time, a short sale listed as a foreclosure, etc.). Follow the instructions on the reports to dispute such report errors immediately - both online/on the phone and in writing.

Be prepared that it might even take several rounds of disputes and submissions of documents proving your case to ultimately clear everything up - if you experience this, make sure to loop your mortgage pro in after the first dispute round, rather than waiting months and months to even make the first call. It might be the case that the hard-to-dispute items are simply not making much of a difference to your ability to get a home loan.

**2. Do another scan for small reporting inaccuracies you think don't make a difference - but do.**

In particular, you're looking for things like:

- Delinquencies that should have aged off
- Balances listed as higher than they truly are
- Limits listed as lower than they really are, and
- Short sales/foreclosures that are improperly dated, among other things.

Paying bills late or not at all is only one thing that dings your credit report and score. Having a maxed out credit account (loan, line or card) limits is another. So, if your credit report shows your balances as higher than they actually are or your limits as lower than they actually are, this by itself can actually impair your credit score.

These sorts of little, technical errors can, cumulatively, create a serious, negative impact on your credit score. They are very common - and commonly overlooked by consumers who are looking primarily for big, bad errors and wrong reporting that might indicate identity theft or other nefarious goings-on. So take a second tour through your credit reports looking for inaccurate balances and limits.

In the same vein, triple-check the dates of any delinquent payments, collections, short sale(s), foreclosure(s), or bankruptcies that are legitimately reported. Another common error is for these sorts of derogatory credit marks to have been dated inaccurately. Delinquencies should age entirely off your report after 7 years, and bankruptcies after 10. The precise date of a short sale or foreclosure can actually make or break your ability to qualify for a home loan - so make sure it is reported accurately.

**3. Pay the right things off - and take care not to pay off accounts you need to show your responsible use of credit.**

A few things that most lenders will demand you settle, bring current or pay off entirely before you can buy a home:

- Accounts in collections
- State and federal tax liens
- Past home loans or lines of credit in default that were not extinguished through Foreclosure or short sale (e.g., second loans, home equity lines of credit, etc.)
- Defaulted federal student loans (for FHA loan applicants).

If you do have to negotiate with any such creditors for settlements or repayment plans, consider including the way they report the account as one of the negotiable items in your settlement deal. Consult with your mortgage professional about how you should ask the creditor to report the resolution as part of the settlement - you might not get it, but it certainly doesn't hurt to ask.

Your mortgage pro can also help you understand how you should sequence and prioritize the various items on this little laundry list. For example, some lenders might allow you to simply extinguish a tax lien at closing, while most FHA loans won't allow for a credit pre-approval while you have a defaulted federal student loan on your report.

But do exercise some caution when you start paying off debt in preparation for home buying. Some house hunters take the opportunity to pay all their debt off and close out old, unused accounts, thinking it will document their readiness for the financial responsibilities of homeownership. Not so: credit scores are optimized when they show that you (a) have credit available to you, and (b) are responsible in how you use it. The ideal for the FICO score calculations is to be using roughly 30 percent of the credit available to you on your accounts. So don't pay them entirely off, and whatever you do, don't close accounts that are open and/or current.

That said, don't go out charging up a storm trying to bring zero balance accounts up to 30 percent credit limit usage. A flurry of new charges can upset your debt-to-income ratio and be seen by the FICO calculating robots as a sign of potential financial distress.

**4. Ask about augmenting your report with non-traditional "tradelines," if needed.**
If you simply don't have much credit because you like to pay cash, kudos to you for managing your finances responsibly. Increasingly, lenders will allow borrowers to use non-traditional accounts to document their credit history. If you can document your history of paying your rent, health insurance, or even child care bills on time, every time, for at least 12 months, talk to your mortgage professional about whether you can use any of these accounts to prove yourself creditworthy to mortgage lenders.

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**5. Get your mortgage pro to help.** Up to now, you've been working on the reports that you can pull yourself, for free, as mandated under the federal Fair and Accurate Credit Transactions Act (FACT Act) through AnnualCreditReport.com. These reports are free and are the smart starting point for your credit Spring Cleaning, but they have two important shortcomings:

(1) They are almost never identical to the report your lender will actually use as the basis of your mortgage application, and …

(2) They do not include the FICO credit score on which lending decisions are based.

So, once you've dealt with any major or minor reporting errors you detect on the free reports, get your mortgage pro in the loop (if you haven't already) and ask them to pull your report and FICO score, and help you to troubleshoot it. From the report, they can tell you whether you'll have any challenges qualifying at the price range you desire and, if so, they can help you put a plan of action into place for finishing up your credit fitness program.

Many mortgage pros have software or expertise that can power a set of recommendations about what you need to do to complete your credit report Spring Clean, like paying 3 particular accounts down by a specific dollar amount, each. Also, they generally have access to Rapid Rescore or similar programs that will have your report updated and your credit score revised within a day or two after you pay a bill down or execute your mortgage broker's other score-boosting advice. (By contrast, it can take 30 days or more for your score to be updated if you dispute your report on your own.)