

## How Cleaning Up Your Credit Can Save You Money.

Whether you are purchasing your first home, a new vehicle or just need a credit card or line of credit, having a good credit score will save you money. Lenders and creditors consider your credit score an excellent predictor of how likely you are to repay your debts on time and as agreed. Lenders use your credit score to help them determine your eligibility as a borrower and in turn what interest rate they may be willing to offer to you.

Although there are many scoring models available, the most common credit score used is the Fair Isaac or FICO score. This has a numerical range of 300-850 and the higher the score the lower the risk to the lender, i.e. higher is better. The scores are based on a computer generated scoring model that is completely non-judgmental. It does not take into account your income, your gender, race or how much money you have in the bank. It's simply based on how you handle your credit.

Paying your bills on time is probably the single most important action you can take to improve your credit score. The faster you pay off your debts the faster your credit score will improve. If you aren't current and paid up to date with your creditors, get current. However, if you know you are going to be late making a payment, call your creditor and find out what the late payment will be. Don't ignore it and think they won't notice it's a little late. They will notice and they won't care about the "a little late" part. When your creditor receives your payment the first place that payment goes to is late fees, then the interest due, then the principal due. Guess what happens if you didn't include enough money to cover the late fee? You get a 30-day late mark on your credit score because you didn't include the "full" payment. The next month you make your payment on time and pay the normal amount. But even though you made *that* payment on time, you still owe the late fee from the previous month's late payment and now you have either a rolling 30-day late or possibly a 60-day late mark on your credit report. Again, get current on your payments. Call your creditor if you are not sure.

Maxing out your available credit or only making the minimum monthly payment is understandable in this economy, but it won't help your credit score. Having a number of credit lines available is not a bad thing. The credit scoring model likes to see that you have long established accounts where over the years you've consistently made your obligations on time. However, opening up credit lines that you don't need is a common mistake and it may be that you're taking on more debt than you can handle. Regardless of the reasons for multiple credit cards, it may result in the lowering of your credit score, since those more recent credit cards lower the average age of your account history. Remember the scoring model likes to see those long established accounts. Paying off your debts is always best, rather than borrowing from one credit card to pay for another credit card.

How much money can you save by having a good credit score? Individuals with better credit scores get lower interest rates. On a simple revolving credit card the rates can vary anywhere from 7.9% to 22.90%. On an auto loan the rates can vary from 6% all the way up to 16%. These numbers may seem small, but over time they can really add up. Home loan rates vary less, but since the loan amounts are usually in the hundred thousand dollar range, the difference in mortgage payments can be even more dramatic resulting in losses of thousands of dollars in interest paid each year. That's money you'll never get back.

It's never too late to improve even the worst of credit scores. Like everything else in life, credit scores improve as your credit behavior improves. As time passes, even the worst black mark on your credit will fade as your behavior improves. Before applying for your next loan, it may behoove you to check your credit. After all, although a computer generates your credit score, people enter the information about your credit into the system, and sometimes mistakes are made. To check your credit score visit Equifax at [www.equifax.com](http://www.equifax.com) or Experian at [www.experian.com](http://www.experian.com) or TransUnion at [www.transunion.com](http://www.transunion.com).

Julie Vaissade-Elcock is the owner of Vaissade Mortgage Company.