

Consumer Information from Mid Oregon Credit Union

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Quickly boost your credit score

ATLANTA (5/4/11)--If you've recently tried to refinance your mortgage, or get a new one, you--along with 25% of all mortgage loan applicants--may have found yourself being denied a loan for a home you can afford. What's up?

Freddie Mac and Fannie Mae, the government entities that back just about every mortgage written, have tightened lending guidelines and raised the bar on credit scores (*CNNMoney* April 20).

The average credit score to get a conventional mortgage at a low interest rate has risen from 720 in 2007 to 760 today. Add to that the fact that you can get rejected for violating even one Freddie/Fannie guideline--for example, having a total debt-to-income ratio that exceeds 45% (in 2009 the limit was 55%).

You can do something about it, and quickly. Here are three fast ways to improve your credit score while staying within the new Freddie/Fannie guidelines:

1. *Lower your credit-utilization ratio.* Almost one-third of your credit score is based on your credit-utilization ratio. That's the total of your credit-card balances divided by the total of your credit-card limits. Pay down balances and use 20% or less of your available credit, and ask your creditors to increase your credit limit. Increasing your credit limit will help you keep your use to 20% or less of your available credit. Just beware of the temptation to spend more just because you can. And keep accounts open--closing unused accounts could hurt your score by instantly raising your utilization ratio.
2. *Correct any mistakes in your credit report.* If you've been denied a loan, ask your lender for copies of your reports. You also can get one free credit report from each of the three reporting bureaus--Equifax, Experian and Transunion--annually, from annualcreditreport.com. On the same website, you can purchase a credit score from any of the three agencies, and report any mistakes. Correcting mistakes can improve your score quickly, especially if you do it online. The credit bureaus must process disputes within 30 days, and they usually settle them even faster than that.
3. *Pay your bills on time.* This hasn't changed. Missed payments remain in your credit history, counting as a negative for seven years. But the new Freddie/Fannie guidelines are tighter than ever: Missing payments on credit cards, auto loans, and other debts in which the balances do not have to be paid off every month--for example a student loan--will add 5% of your outstanding balance to the debt part of the debt-to-income calculation. In other words, if the outstanding balance on your student loan is \$20,000 and you miss a payment, \$1,000 gets added to the debt side of your debt-to-income calculation.

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