



# KNOW THE SCORE

What your credit score means  
& why it's *really* important



# INSIDE THIS GUIDE

Credit Score, Defined.....3

A Very Brief History on Credit Reporting.....5

The 5 Factors of Your FICO® Credit Score.....7

The Law Says You Get a Free Credit Report.....9

Fixing Errors on Your Credit Report.....11

Building Credit from No Credit.....14

Do These 5 Things.....15

NOT SO YAY!

YAY!

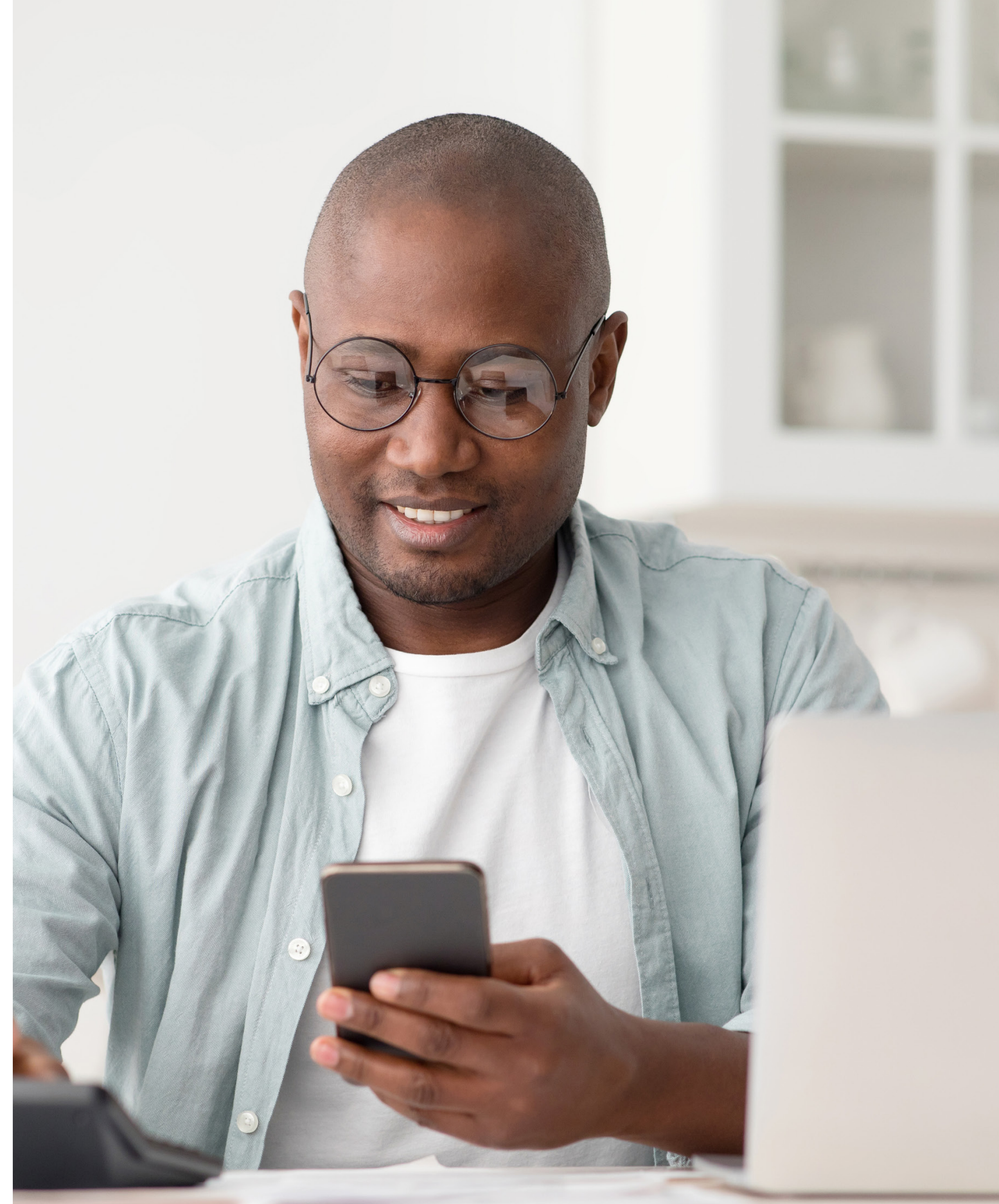


300 - 850

# CREDIT SCORE, DEFINED

This three-digit number can make a big impact on your financial life. Based on information found in a credit report, a credit score ranges from 300 (very poor) to 850 (excellent). Lenders use this score to evaluate how likely you are to repay debt obligations on time.

Having a good credit score could mean more favorable loan terms, such as a lower interest rate or reduced mortgage insurance premiums. But having perfect credit to qualify isn't a requirement; that's just a mortgage myth.





# A VERY BRIEF HISTORY ON CREDIT REPORTING

Most lenders use the credit scoring model developed by Fair, Isaac and Company, now called Fair Isaac Corporation and more commonly known as FICO. Founded in 1956, FICO initially made scoring models for specific companies based on each company's customer profiles.

In 1989, FICO developed a generalized scoring system that can evaluate all consumers. FICO scores then became standard in the mortgage industry when Fannie Mae and Freddie Mac—the two government-sponsored entities that guarantee most of the mortgages in the U.S.—required applicants to submit them starting in the mid-1990s.

Since that time, other credit bureaus have developed their own credit scoring systems and created other trade names so when you hear the term “credit score” it can be any one of several credit scoring systems, although many people refer to all credit scores as “FICOs.”

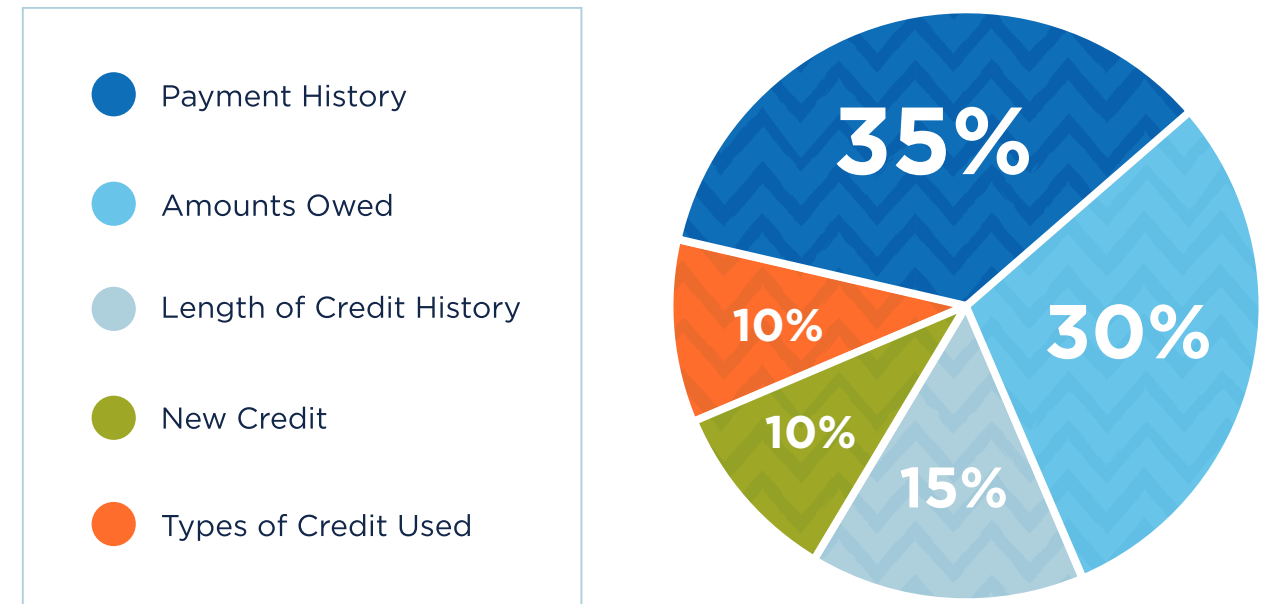




# THE 5 FACTORS OF YOUR FICO® CREDIT SCORE

(Spoiler alert: #2 is debt!)

Data in your credit report is categorized into 5 different categories to determine your FICO® score.



## 1. **Your payment history (35 percent of your score).**

How consistently are you making payments? That's what counts the most. Late payments on all your previous and current credit accounts lower your score, so be sure to always pay on time.

## 2. **How much you owe (30 percent of your score).**

Next up, your debts. How much do you currently owe on all of your open accounts? How many balances do you have? How much available credit are you using? The goal here is to lower the percentage of your total credit limit that you still owe, typically aiming to keep card balances to less than 30 percent of their limit.

## 3. **Length of credit history (15 percent of your score).**

The longer you've had active credit and made timely payments, the better your score will be. There's not much you can do now to change how long you've had credit, but you can focus on being as responsible as possible with the way you currently manage your money.

## 4. **New credit (10 percent of your score).**

Whenever you apply to open a new line of credit, a hard inquiry into your credit report is performed that negatively affects your score. But credit scoring models know that borrowers want to comparison shop for the most favorable rates and pricing. That's why inquiries from mortgage lenders within a 45-day period count as a single inquiry. In general though, minimize hard inquiries to maximize your score.

## 5. **Types of credit/other factors (10 percent of your score).**

How's your credit score calculated when it comes to miscellaneous items? Something as small as using a variety of credit types (such as home/auto loans, cards, and personal lines of credit) can have a minor influence on your score. But it's probably not a good idea to open a lot of new accounts just for this reason — you may incur the new credit penalty mentioned above.

# THE LAW SAYS YOU GET A FREE CREDIT REPORT

Thanks to the Fair and Accurate Credit Transactions Act of 2003 (AKA, The Fact ACT or FACTA), the three nationwide credit bureaus — Equifax, Experian, and TransUnion — are required to provide you with a free credit report every 12 months.



## ANNUAL CREDIT REPORT TIPS:

- Other sites offer free credit reports, but [AnnualCreditReport.com](https://www.annualcreditreport.com) is the only one authorized by Federal law to provide you with free annual credit reports. Avoid those other sites to protect your personal and financial information.
- Experian, Equifax, and TransUnion get their information from multiple sources, so the data on one bureau's report may vary from the other bureaus' reports. Instead of requesting all three free reports at once, consider staggering your requests during a 12-month period. You'll have a more accurate and comprehensive view of the information on your reports.

### There are three ways to request your free annual credit reports:

- Visit [www.annualcreditreport.com](https://www.annualcreditreport.com)
- Call 1.877.322.8228  
For deaf or hard of hearing, call 7-1-1 to access your local TDD service, then refer the operator to [AnnualCreditReport.com](https://www.annualcreditreport.com)'s TDD service at 1.800.821.7232.
- Visit [www.consumer.ftc.gov](https://www.consumer.ftc.gov) and search for Annual Credit Report Request Form. Download the form, fill it out, and mail to:

Annual Credit Report Request Service  
P.O. Box 105281 | Atlanta, GA 30348-5281

### Why request your credit report?

- Make sure your personal and financial information is accurate
- Look for signs of identity theft, like an unauthorized account
- Fix any errors that can negatively affect your credit score
- Give you a better idea of what lenders are looking for

## What information is in your credit report?

- Personal info – name, address, date of birth, Social Security number, phone number, etc.
- Open, closed, and negative accounts – credit cards, lines of credit, current installment loans (auto, mortgage, personal, or student), and payment history (missed payments, charged-off accounts, or collections)
- Financial public records – foreclosures, bankruptcies, judgments, and other financial transactions that are publicly disclosed
- Credit inquiries – list of creditors, lenders, and other entities who asked to see your credit report

# FIXING ERRORS ON YOUR CREDIT REPORT

If you've found mistakes on your report, both the credit bureau and the company reporting the information must fix them for free. To file a dispute, you'll need to contact each credit bureau that has the mistake, explain in writing what's wrong, and provide supporting documents.

## What to include in your letter:

- Your full name and address
- Each mistake to fix and why
- Copies of supporting documents (keep the originals)
- Copy of your report with the mistakes circled

## What to expect after filing your dispute:

- The credit bureau has 30 days to investigate your dispute. You may be asked for more evidence to support your dispute.
- The credit bureau will also send all the evidence you've provided to the company reporting the disputed information. If the company agrees with the dispute, they must notify all three credit bureaus to fix the information.
- The credit bureau must notify you of the results in writing and provide you with a free copy of your credit report if the disputed information is changed. This copy doesn't count as a free annual credit report.
- Anyone who requested your credit report in the past six months (or past two years if requested for employment purposes) will also be notified of the corrections.

## Learn more about fixing errors on your credit report:

- [www.Experian.com](http://www.Experian.com)
- [www.Equifax.com](http://www.Equifax.com)
- [www.TransUnion.com](http://www.TransUnion.com)





# BUILDING CREDIT WITH NO CREDIT

**You have options if your credit history is limited or nonexistent.**

- Become an authorized user for a family member's credit card.
- Apply for a secured credit card, which requires a security deposit but can be easier to qualify for with limited credit than a traditional credit card.
- Pay all service providers (utilities, cable, internet, etc.) on time (payment history is 35% of your credit score).
- Ask a trusted friend or family member to co-sign a loan (both parties are responsible for the debt and the loan appears on both credit reports).



# DO THESE 5 THINGS

Once you're ready to apply for a mortgage, make sure you protect your credit during the loan process. Lenders are typically required to pull a refreshed credit report before closing. If your finances change significantly between application and closing, your loan could be denied. Use these tips to stay on track to an on-time closing!

1. **Pay bills on time. Every time.** – Even paying a few days late can negatively affect your score.
2. **Don't close credit accounts** – Keep them open to avoid reducing the total amount of your available credit and your credit history.
3. **Don't apply for new credit cards or other loans** – Doing so triggers hard inquiries into your credit report.
4. **Avoid big-ticket credit card purchases** – In general, be a frugal credit card user during the mortgage process. Charging up existing accounts can reduce your ratio of debt to available credit, which can ding your score. Keep credit card balances to less than 30 percent of your total limit, and don't transfer debts between cards.
5. **Communicate with your lender** – They can let you know how certain actions will affect your credit and how to minimize the impact.

Sources deemed reliable but are not guaranteed: CNBC.com – What is a FICO Score and why is it important? (Jan. 31, 2023). MyFICO.com Credit Education. Consumer.FTC.gov – Free Credit Reports. Consumer.FTC.gov – Disputing Errors on Your Credit Reports. Credit.com – What Is a Hard Inquiry and How Does It Impact Your Credit? (Aug. 14, 2020).



# NOTES





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