

CREDIT REPAIR GUIDE



Watch Out For Credit Repair Scams!

There are a lot of “credit repair companies” out there that make BIG claims such as “Do this one step and raise your score by 100 points. Guaranteed!” Beware of these solicitations, because a lot of these “companies” are total scams. The truth is that credit repair is a lot more complicated than you might think. It’s not as predictable as just paying off one bill then immediately watching your score go up. So keep that in mind when you are searching for a licensed and certified credit counseling service. Also, while we’re on the topic of credit scores, we wanted to clarify an important disclaimer: *The Hero Home Programs is not a licensed or certified credit repair service. Therefore, the following guide is for general, educational purposes only.* That being said, education is extremely important to us, so we wanted to break down some helpful tips that you should know when it comes to maintaining a healthy credit score. But if you do need further help repairing your credit (beyond just this guide), ask your Hero Home Programs lender for recommendations, and they may be able to refer you to a certified credit counselor. And for more information on credit repair and maintenance, visit <https://www.ftc.gov/>. Awesome, let’s dive into some helpful tips about credit scores!

Homebuyer **Benefits** To Having **Good** Credit

Because your credit score is important for getting you the best home loan experience possible, we've created this guide to help you boost & maintain your credit score!



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Better chances of getting a lower interest rate



More likely to qualify for a larger loan amount



Easier and faster approval process



Check Your **Credit Report** For Errors

- You have the right to obtain one free credit report every year. To access your free credit report, visit <https://www.annualcreditreport.com/>.
- You should keep an eye on your credit in case of errors having to do with identity theft, cyber crime, and fraud. If you notice any problems, make sure to dispute them ASAP. Checking your own credit is a soft inquiry and shouldn't affect your score. You can check your score through credit bureaus like Experian, Equifax, & TransUnion.

Pay Your Bills **On Time**

- Paying credit card and loan bills on time is especially important
- Utility bills usually don't affect your credit unless sent to collections

You should try to pay all your bills on time, but credit cards/loan bills have a bigger impact on your credit than utility bills.

Create a **Budget**

A great way to avoid racking up too much debt is by creating a budget.

Creating a budget tells you how much money you have coming in and going out of your household. It can also help identify any spending habits you can improve, along with any extra expenses you can eliminate (such as unused subscriptions or streaming services). How to create a monthly budget:

- Write down your total monthly income after taxes. Make sure to take ALL your sources of income into account.
 - Go back through your bank statements and credit card charges to review your monthly spending. List out all your fixed expenses (rent, utilities, phone bills, car payment, etc) in one column.
- Create a list of all your variable expenses (groceries, fun, shopping, etc) in another column. Because these expenses change from month to month, you may want to go back over the last 3-6 months and find the average to estimate your monthly variable expenses.

Understand Your Credit Utilization Ratio

Your credit utilization ratio looks at your credit usage across ALL your credit accounts.

Credit Utilization Ratio =

Total Credit Debt You Owe / Your Total Credit Limit

For a healthy credit score, you want to keep your credit utilization low, preferably 30% or less.

Let's say Jack has 2 credit cards, \$100 total debt, and his total available credit balance is \$1000.



Jack's Credit Utilization Ratio
\$100 / \$1000 = 10%
Jack's credit utilization ratio is **Low** which is **Awesome!**

Jill has the same amount of credit card debt as Jack (\$100), but Jill's total available credit balance is only \$200.

Jill's Credit Utilization Ratio
\$100 / \$200 = 50%

Jill's credit utilization is **HIGH** which is **Not-So-Awesome**.
This could hurt her credit score.



Avoid Closing Unused **Credit Cards**

This is an important tip to keep in mind when you're farther along in the home buying process. Once you apply for a mortgage and have your credit pulled, you may want to avoid closing any unused credit cards.

The reason for this is because closing unused credit cards will actually lower your total available credit balance.

Even if your debt stays the same, messing with your total available credit balance can raise your credit utilization ratio, which can hurt your score!

Set Credit Card Minimum Payments To **Auto Pay**

Having unused credit cards open may be able to help your score, but beware of annual fees. Missing annual fees will damage your credit.

It's best to set all your credit card minimum payments to autopay, so you can maintain healthy credit and avoid those pesky late fees.



Keep Your Credit Card Spending Low.



Keeping your credit card spending at 15% or lower before paying your bills may help boost your score! This strategy may be especially helpful if you just recently started using credit cards and don't have a lot of credit history. For example, if one of your credit cards gives you a total available balance of \$1000, try not to spend more than \$150 per month on that card before paying it off. A great way to keep track of your spending? Only use credit cards for fixed expenses that you NEED, like your phone bill or utilities.

If you use credit cards to pay for more variable expenses that you WANT, like online shopping, then you might rack up credit card debt faster than you'd expect!

Roadmap To Healthy Credit

Create a
Budget

Check Your Credit
For Errors

Pay Bills
On Time

Set Credit Card
Minimum Payments
To Autopay

Keep Credit Card
Spending **Low**

Do You Need Great Credit To Qualify For A Home Loan?

While a healthy credit score has its benefits, you don't necessarily need excellent credit to qualify for a home loan.

You'd be surprised how many people think they don't have what it takes to qualify, just to find out things aren't so bad after all! If you're looking to buy or refinance a home, and you're unsure whether you can qualify, then give us a call. Our mortgage advisors will speak with you about your financial situation and let you know of any areas you can improve. We'll also walk you through the next steps toward improving your credit, so you can get the most benefits possible on your home loan.



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