

# Understanding Your Credit Score

The first step toward leaving credit challenges behind is understanding where you are right now. Because your credit report is used by lenders to assess your finances, it's a good idea to review it yourself beforehand. This gives you the chance to correct any errors and identify any continuing problems.

You can order a free credit report each year from each of the three national credit companies. Examine it closely to ensure it's correct. Your explanations of any negative entries can play an important role in determining your mortgage options.

## Credit reporting and scoring

Credit bureau scores are produced from software developed by Fair Isaac Corporation (FICO).

While many lenders use credit scores to help make lending decisions, other criteria are significant to determining the level of risk involved in making a loan. Those other criteria include income and debt, employment stability, and how the borrower's payment history has changed over time.

## Factors that affect your score

There are five basic factors that determine your credit score. The levels of importance shown here are for the general population, and will be different for each individual:

1. Your payment history: what is your track record?
2. Amounts that you owe: how much is too much?
3. Length of your credit history: how established is it?
4. New credit: are you taking on more debt?
5. Types of credit in use: is it a "healthy" mix?

## Loan pricing

Just as there is no single minimum credit "cutoff score" for approving a loan, there is no specific score that determines how much interest you pay. But there is a relationship between your credit and the price of your loan, which includes the interest rate.

When lenders review your credit history, they are trying to determine how likely you are to repay the loan. How well you've done that in the past is one indicator of how likely you are to do it in the future. The credit score identifies to the lender the level of future risk associated with your credit history, as compared to hundreds of thousands of other credit reports. The higher the score, the lower the risk.

## Moving up

With the **NEA Home Financing Program**<sup>®</sup>, our goal is to do what it takes to get you into a home now, and work with you to establish a positive payment history that can help you improve your standing in the future. As you move up the credit ladder, you'll have an increasing number of programs and rate options available, giving you more ways to improve your financial security.

The **NEA Home Financing Program**<sup>®</sup> offers a wide variety of product options to meet your unique home buying needs. Our home mortgage consultants can help you find the right combination of loan features to support your financial goals. Call today: **1-800-632-4968**

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