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Credit Scores: Why Should I Care?

It's not just banks and lenders that rely on credit scores to help make important credit decisions. Landlords, employers, insurance companies, and even cell phone and other utility companies all utilize credit scores to help determine their business and credit relationships with consumers. This means that your credit is the most important component of your entire financial portfolio. Because of this, monitoring and managing your FICO score is vital, especially if you're looking to buy or refinance a home.

The FICO scoring system was created in the 1950s by Fair Isaac Corporation and has been the standard for lenders since the 1980s. FICO credit scores typically range between a low score of 300 and a high score of 850. Under the FICO system, securing credit becomes less expensive for borrowers with higher scores (those who represent the least risk) and more expensive for borrowers with lower scores (those who represent the most risk). In fact, when it comes to a mortgage, a lower credit score could easily cost a consumer hundreds or even thousands of dollars more in interest every month and throughout the life of the loan, compared to the same loan with a higher score.



Fair Isaac's consumer website at www.myfico.com offers a mortgage payment calculator that is updated regularly to show consumers how their FICO score can affect their interest rate.

But the price you pay for having a low credit score doesn't end there. Consumers with low credit scores are also subject to Loan-Level Price Adjustment fees (LLPAs) when applying for a conventional mortgage.

LLPAs are mandatory surcharges based strictly on credit scores. They are additional fees paid to Fannie Mae or Freddie Mac, not your mortgage professional. Analysts suggest that imposing these "penalties" is a blatant effort to recoup - and to help lessen further losses - on foreclosures. The surcharge could mean thousands of dollars for borrowers who do not monitor and maintain a good credit rating.

A low credit score can get expensive! Consumers with lower credit scores not only pay a higher interest rate on the loan, but higher LLPAs as well. If you're thinking about buying, selling, or refinancing a home, you owe it to yourself to be credit ready.

Stay tuned for more great credit tips!

