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How important is your FICO score when applying for mortgage

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A credit score, also fondly referred to as the FICO score (named after the company that jump started the system - Fair Isaac and Company) affects so many important factors in one's financial life. Simple things such as getting a job, finding affordable insurance, opening a new checking account and borrowing money can all be impacted by your FICO score. When it comes to getting a mortgage these days, the biggest one liner is "what's your score?"

The credit score of the borrower, not only affects the ability to qualify for a mortgage but the loan amount vs. the appraised value of the home, as well as the interest rate. The lower the score, the lower the loan amount, and more importantly the higher the interest rate!

In order to improve one's score, it is important to know what makes up the components of the credit score. There are five main factors involved:

* Paying bills on time: Paying bills on time means the payment is posted before it is 30 days late. This will avoid any negative reporting to the credit bureaus. You can still pay your bills after the grace period and pay the late charge, but it won't affect your score. This also includes judgments, charge offs and liens and anything that might show as a public record. So pay those medical bills!

* Amount owed vs. high credit allowed: Keep the amount owed on a credit card well below 50% of the highest credit limit allowed. So if your credit limit is $1,000, do not charge more than $300-500 against it. This is the worst credit killer especially if you go over your limit. If you have to juggle cards around each month to maintain lower balances, then just keep track of them.

* Credit history: It is important to show that you have experience with debt and paying it on time. The longer you have had credit and the older your existing credit is, the better you are. Keep older cards open even if you do not ever use them. Close out new credit cards first because they have less of a history.

* New credit: Is great because it shows that you still got it. On the flip side, know that every time you take out a new credit card, it has no history and can act against you. So be careful of those discounted offers from retailers. You don't need retail credit cards even if you can get 10% off that first pair of jeans!

* This leads to the other issue of "inquiries." An inquiry shows on your credit report each time a potential lender runs your credit. The inquiry should match to a new and active trade line. If it does not, the system assumes the creditor rejected your request for credit and can potentially lower your score. Even if you apply for new credit and don't take it, it is automatically assumed you got rejected. Silly, but don't apply for credit cards, car loans or have mortgage brokers run your credit until you are sure you want to do business with them!

The credit mix only counts for a small portion of your credit profile. Having a nice mix of credit shows that you can get all types of credit. Don't go out and lease a car if you don't need one because this has the smallest effect on your score.

The credit score has been a mystery for years but has great power on qualifying for a mortgage and any type of loan. The key is to be prepared and check your credit in advance to avoid any surprises that might be too late to fix. Check your credit report annually and review it for any errors or possible improvements. You are entitle by law to obtain a free credit report from each of the three bureaus, but will most likely pay for finding out your score. These days, you are only as good as your score.

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