Credit Use – How Do You Measure Up? Part II

Breaking into the mortgage market right now could be a very difficult task for many right now. Rising foreclosure rates in the subprime or poor credit mortgage market have led to tighter lending rules and less available credit for those with bad credit. The latest news in the market, however, is that those at the top of the market are also feeling the credit pinch. Mortgage lenders recently raised interest rates on jumbo loans (those exceeding the Fannie Mae $417,000 limit), making credit scarcer for even those with higher incomes. The distinguishing factor for potential mortgage borrowers today seems to be the credit score. If you are looking into buying a home in the present market you may want to know how your credit stacks up to others in the application pool.

Fair Isaac Corporation, the company responsible for the current credit scoring method, surveyed American consumers about their credit uses to come up with a profile of the average credit consumer. They found that in the area of credit utilization, of those with credit card accounts, almost a full 40 percent have a card balance of $1,000 or less. On the other end of the spectrum, 15 percent of Americans carry a card balance of $10,000 or more. In terms of total debt or credit balances (minus mortgage debt), almost half (48 percent) of consumers have less than $5,000 in debt as reported to the credit bureaus. A significant segment though (37 percent), carry more than $10,000 of non-mortgage-related debt.

The key for credit scoring is what percent of their credit limit this debt makes up. When applying for a mortgage loan, be aware that lenders like to see your credit balances make up on a small percentage of your limit. Try to keep your balances to 20-30 percent of your credit limits. The survey found that more than half of all consumers use less than 30 percent of their credit limit, and only one in seven people use 80 percent or more of their limits. The average total credit availability for a typical American is $19,000.

Another finding of the Fair Isaac survey was that consumers have very few credit inquiries on their records. A credit inquiry is defined as any time a lender requests a copy of an individual's credit report in response to the individual's request for credit. It turns out that the average consumer has only one credit inquiry on record during a one-year period. Only a small percentage (6 percent) of Americans had more than four inquiries on their credit reports in one year. Having just one or two inquiries on your report is not a big deal, but having several can lower your score. The credit bureaus view lots of inquiries as evidence that you are desperate for funds as a result of poor management of your existing credit. This makes you a greater risk to lenders and your score is reflective of this assumption. Try to keep your credit inquiries to a minimum!

Effectively managing your credit will produce a good credit score, one of your greatest possible assets in obtaining home loan funding. And chances are, if you are a typical American, you are already doing a good job of controlling your credit use!