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Banks requiring much higher credit score numbers than in the past for loans

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Lennihan/AP
While a FICO score in the 500s used to be good enough for a government-backed mortgage, now banks are looking for a hundred points higher.

A three-digit number could determine where your child goes to college, where you will live and how much interest you will pay on your credit card.

Credit scores have always played a role in credit approval for everything from student loans to mortgages. But with banks holding up borrowers to higher standards in the wake of the financial meltdown, they are requiring much higher numbers than in the past.

"Before, you could breathe and get a loan," said Tracy Becker, CEO of credit restoration company North Shore Advisory in Tarrytown, N.Y. "Now, you must have specific scores to be approved and those scores must be much higher."

The score most commonly used by lenders to assess creditworthiness is the FICO score, which ranges from 300 to 850 points.

While a FICO score in the 500s used to be good enough for a government-backed mortgage, now banks are looking for a hundred points higher, Becker said. The new gold standard is 740 and above, while 680 used to be very good.

Your score could mean the difference between getting a loan - or not. It also determines how costly your loan will be. Consumers with scores below 620 pay significantly higher rates, which could cost hundreds of thousands of dollars over the life of the loan.

Fortunately there are ways to spruce up your three-digit number. Becker offers the following tips:

Pay your bills on time. Be diligent. One $100 collection on your credit report could cost you 120 points on your credit score.

Keep in mind, the more recent a delinquency, the worse it is for your score. Being late yesterday will have a far worse effect on your credit score than being late four years ago.

Consumers with high credit scores have to be especially careful about paying on time. The higher your score, the more it will drop with a delinquency.

Do not open or close any loans, car leases or credit cards two years prior to applying for a mortgage. Opening and closing credit can ding your score by up to 60 points. Lenders don't like to see people opening and shuttering loans as it is often a sign that they are close to default.

As you open new accounts, you bring down the average age of all of your credit. The younger your credit, the lower your score.

Build your credit before applying for a mortgage. You should be building your credit profile at least two years in advance of applying for a loan. Open three to four accounts in your name. When applying for a mortgage, banks want to know you have been in the credit game for awhile.

Watch those balances. Keep balances at no more than 10% of the limit on revolving credit. Pay down balances three months before applying for credit.

Make sure to use all of your credit cards. Inactivity can drop your score by 20 points.

Beware of credit inquiries. Be mindful that when a third party pulls your credit report, your score can drop up to five points for each inquiry - though pulling your own score will not hurt you.

But you can limit the damage: When you are shopping for a mortgage, car loan or student loan, shop within a small period of time.

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