

## Score: What is it Good For? The Elements of a Credit Score

A credit score is an extremely important financial tool. It provides access to the financing you need in order to buy a car, a home, or pay for college tuition, among other things. Since higher scores equate to lower costs and vice versa, it's vital to understand the factors involved in calculating your score. Here are the five elements that make up a credit score, in order of importance:

**Payment History: 35% impact.** Paying debt on time has a positive impact. Late payments, judgments, and charge-offs have a negative impact. Delinquencies that have occurred in the last two years carry more weight than older items.

When applying for a mortgage, every point in your credit score can make a big difference. So don't make any major financial or credit decisions - even paying off an old debt or delinquency - without first discussing it with your mortgage professional.

**Outstanding Credit Balances: 30% impact.** This factor marks the ratio between the outstanding balance and available credit. Ideally, consumers should make an effort to keep balances as close to zero as possible, and definitely below 30% of the available credit limit when planning to enter into a loan transaction within 3-6 months.

**Credit History: 15% impact.** This marks the length of time since a particular credit line was established. A seasoned borrower is stronger in this area.

**Type of Credit: 10% impact.** A mix of auto loans, credit cards, and mortgages is more positive than a concentration of debt from credit cards alone.

**Inquiries: 10% impact.** This quantifies the number of inquiries (or requests for credit) that have been made on a consumer's credit history within a 6-12 month period. Each individual inquiry - up to 10 - can hurt your credit score by as much as 5 to 30 points. Any additional inquiries thereafter will not affect your credit score.

In other words, don't start the loan process until you're ready to act. Otherwise each individual credit inquiry could cost you. However, scoring models have now been adjusted to count multiple "hard" inquiries within a 14-day period as a single request. So, when you're ready, your credit will be too.

**If you or anyone you know has any questions about credit scores or what can be done to repair them, please don't hesitate to call.**

