

# The Five Factors of Credit Scoring

There are five factors that impact consumer credit scores. They are listed here in order of importance:

**Payment History** has a 35% impact. Paying debt on time and in full has a positive impact, and late payments, judgments and charge-offs have a negative impact.

**Outstanding Credit Balances** have a 30% impact. Debt ratio of outstanding balance to available credit is important. Keeping that below 50% is wise and below 30% even wiser. It is never a good idea to close an account; the debt ratio will go up and the number of seasoned lines will decrease. Pay outstanding debt down as close to zero as possible and evenly redistribute the remaining balance among the open lines. The increased interest incurred by moving a balance from a 0% card to a 23% card will be minimal relative to what the increased mortgage debt might be with a low credit score. Hitting the maximums of available credit can be very negative. It may be worth calling and asking the credit company to increase your available credit to lower the debt ratio, provided they can do so without a hard credit inquiry.

**Credit History** has a 15% impact. The length of time a particular credit line has been opened is important. A seasoned borrower is stronger.

**Type of Credit** has a 10% impact. A mix of auto loans, credit cards and mortgages is positive, rather than a concentration in credit cards only.

**Inquiries** have a 10% impact. Hard inquiries for credit will negatively impact the score. Auto and mortgage inquiries receive special treatment and 20 inquiries can be made in a 14-day period for auto or mortgage and will be treated as only 1 inquiry. The maximum number of inquiries that will reduce the score is 10. Any inquiries beyond that [11+] in a six -month period will have no further impact on the borrower. Each hard inquiry can cost 2-50 points on a credit score.

## *What do you want out of life?*



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