



The Five Factors of Credit Scoring

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.

Length of Credit History has a 15% impact. The length of time a particular credit line has been opened is important. A seasoned borrower is stronger. Opening new credit cards will decrease the average length, and therefore hurt this portion of the score.

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. Careful, too, when getting credit at a store that is not a department store: the credit agencies frown on cards for more specialized stores where you're likely to only make one purchase, as they seem to show desperation.

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 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.