

## Behind the Numbers: What Does (and Doesn't) Affect Your Credit Score

You've heard of credit scores. You've probably even been told not to apply for too many loans or to run your credit report too often because it can 'bring down the score.' But the truth about what does—and doesn't—affect your credit score often remains a mystery.

When you apply for a mortgage loan, your credit score is a major factor in determining the type of loan and the interest rate you'll get. Because automated underwriting is so prevalent today, your credit score really effects whether or not you'll qualify for a home loan.

There are 5 major factors that affect your credit score:

- 1. Whether or not you pay your bills on time.** This includes mortgage loans, car loans, credit cards, and any other loan that shows up on your credit report.
- 2. Loan balances.** The total amount you owe is taken into account when evaluating whether or not you will be able to take on additional debt.
- 3. Amount of time you have had credit.** Someone who just got their first credit card and has no other credit history will have lower points for this factor than someone who's been paying on time for several years.
- 4. New credit.** Too much recent credit, even if you have a long credit history, is a warning sign to lenders.
- 5. Account mix.** Is it completely credit card debt, or do you also have a mortgage loan, a car loan and a department store account? The more variety, the better.

To a lesser degree, your score also takes into account the following:

Your level of education;

The amount of time you've live at one address;

The amount of time you've worked at one place; and

Homeownership. Homeowners get more points because they are considered a better credit risk (another reason to consider homeownership if you rent!).

As you can see, the best way to get a high credit score is (surprise, surprise) to *earn* it! By paying all bills on time and using credit responsibly, you demonstrate the fact that you're a good credit risk . . . and in return you'll get the lowest rate possible on your home loan.