

MORTGAGE LENDING UPDATE

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Credit inquiries and credit scores

Here is some helpful information from the Fair Isaac Company, developer of credit scores. See more information at myfico.com.

"What is an "inquiry"? When you apply for credit, you authorize those lenders to ask or "inquire" for a copy of your credit report from a credit bureau. When you later check your credit report, you may notice that their credit inquiries are listed. You may also see listed there inquiries by businesses that you don't know. But the only inquiries that count toward your credit score are the ones that result from your applications for new credit.

Does applying for credit affect my score? Fair Isaac's research shows that opening several credit accounts in a short period of time represents greater credit risk. When the information on your credit report indicates that you have been applying for multiple new credit lines in a short period of time (as opposed to rate shopping for a single loan, which is handled differently as discussed below), your score can be lower as a result.

Will my score drop if I apply for new credit? If it does, it probably won't drop much. If you apply for several credit cards within a short period of time, multiple inquiries will appear on your report. Looking for new credit can equate with higher risk, but most credit scores are not affected by multiple inquiries from auto, mortgage or student loan lenders within a short period of time. Typically, these are treated as a single inquiry and will have little impact on the credit score.

How much will credit inquiries affect my score? The impact from applying for credit will vary from person to person based on their unique credit histories. In general, credit inquiries have a small impact on one's score. For most people, one additional credit inquiry will take less than five points off their score. For perspective, the full range for credit scores is from a low of 300 to a high of 850.

Inquiries can have a greater impact if you have few accounts or a short credit history. Large numbers of inquiries also mean greater risk. Statistically, people with six inquiries or more on their credit reports can be up to eight times more likely to declare bankruptcy than people with no inquiries on their reports. While inquiries often can play a part in assessing risk, they play a minor part. Much more important factors for your score are how timely you pay your bills and your overall credit usage as indicated on your credit report.

Does the formula treat all credit inquiries the same? No. Research has indicated that the score is more predictive when it treats loans that commonly involve rate-shopping, such as mortgage, auto and student loans, in a different way. For these types of loans, the credit score ignores inquiries made in the 30 days prior to scoring. So, if you find a loan within 30 days, the inquiries won't affect your score while you're rate shopping. In addition, the score looks on your credit report for rate-shopping inquiries older than 30 days. If it finds some, it counts those inquiries that fall in a typical shopping period as just one inquiry when determining your score.

For credit scores calculated from older versions of the scoring formula, this shopping period is any 14 day span. For scores calculated from the newest versions of the scoring formula, this shopping period is any 45 day span. Each lender chooses which version of the credit scoring formula it wants the credit reporting agency to use to calculate its customer's scores.

So, if you need a loan, do your rate shopping within a focused period of time, such as 30 days. Credit scores distinguish between a search for a single loan and a search for many new credit lines, in part by the length of time over which inquiries occur. In addition, as long as you order your credit reports through an organization authorized to provide credit reports to consumers, such as annualcreditreport.com, your own inquiries will not affect your FICO score."

David Griffin has been financing homes in Macon, Warner Robins and all of Middle Georgia since 1983 and is a member of the Mortgage Bankers Association of Georgia, mbag.org. For an archive of past articles visit mbag.org/ML_Update.html.(7/28/10)