

# Separating myth from fact: Credit scores' mystery explained

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There are myths about credit scores that are not helping you as the consumer.

A low credit score can effect how much you pay for credit and how much credit you can obtain. It is important to check your credit for discrepancies with all three credit-reporting bureaus. The government offers a free credit report once per year. You can obtain all three bureau reports for free by visiting [www.annualcreditreport.com](http://www.annualcreditreport.com) or by calling 1 (877) 322-8228. Certain companies offer free credit reports. However, these companies make you pay for an ongoing monitoring service to obtain your free report.

There are five factors that affect your credit score. The most important is your past

payment performance, which accounts for 35 percent of your score. Any late payments, judgments, collections, etc. will negatively affect your credit score. Recent late payments show a greater indication of future default. The more current your late payments are, the lower your score will be. Late payments show on your credit score once you are 30 days or more past due.

Credit utilization accounts for 30 percent of your score. This pertains to revolving credit, such as credit cards and lines of credit. The closer your balances get to your credit limits, the worse your score will be. Balances on your revolving credit should be kept at or below 30 percent of the available credit limit.

Credit history accounts for 15 percent of your score. This

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pertains to how long you have had credit open and active. The longer accounts have been open and in good standing, the better your score will be. Older accounts show how well you pay

where newer accounts do not show whether you can pay on accounts or not. Opening new accounts and closing your seasoned accounts will negatively impact your score.

Credit inquires account for 10 percent of your score. Inquiries will affect your credit score each time your credit is pulled by a credit card or personal loan. You have a 14-day period for auto loans and a 30-day period for mortgages. The multiple inquiries for these periods will not affect your score. The bureaus want you to have the opportunity to shop for larger purchases.

The types of credit in use account for the final 10 percent of your score. Finance company accounts will score lower than the accounts you secure through department

stores, auto finance companies or mortgage companies. If the predominance of your accounts is with finance companies only, it may appear you cannot qualify for a better type of credit.

Knowing the truth behind your credit score is extremely important in this day and age. With mortgage companies, auto finance companies, and credit card companies relying so heavily on your credit score to offer you credit, any problems on your credit could keep you from obtaining credit for anything. By remembering these simple formulas, hopefully you will never be left out in the cold.

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