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Things That Affects the Credit Rating

Let's do a quick, one minute test assessing your knowledge about how various things affect your credit rating. Are the following statements true or false?

- Every time you apply for credit, that application worsens your credit score.
- You shouldn't check your credit too frequently because that can hurt your FICO credit score.
- Those inquiries on your credit report from lenders who wanted to make you credit card offers are lowering your credit score.

Believe it or not, they're all false!

Here's what you need to know about how inquiries of all different kinds impact your credit profile. There are two types of inquiries that are made on your credit report: soft inquiries and hard inquiries. Anytime you apply for credit—by seeking a credit card, a mortgage, or an auto loan, for example—that is called a hard inquiry. A soft inquiry occurs any time you want to look up your own credit report. Soft inquiries do not hurt your credit FICO score at all. As a consumer, you have the right to check your credit file and get your FICO score as many times as you want and those inquiries won't negatively affect your credit standing one bit.

Likewise, when banks and other institutions want to determine to what individuals they will extend credit offers, they will routinely examine thousands of credit files, if not hundreds of thousands, before deciding to whom they will send various offers. These banks look at your credit history, along with scores of other people's credit reports, and the result is an inquiry on your credit report. But this is a soft inquiry, and it does nothing to impact your FICO score, because you did not ask them for credit. They were simply scouring the universe to find individuals who fit a predetermined credit profile for some new offer they were trying to make.

On the other hand, if you apply for credit, even an increase of your credit limit, or perhaps a business loan, then a financial institution will likely pull your credit report. This is considered a hard inquiry and it can—but not necessarily will—impact your FICO score.

How will you know if an inquiry will affect your FICO score? The answer lies in how many hard inquiries you've had in a given time frame. If you can limit your hard inquiries and applications for new credit accounts to no more than one (maybe two at the maximum) every 12 to 18 months maximum, that won't hurt your FICO score much at all, perhaps just a few points. With more inquiries than that, you can expect your FICO score to begin declining to a greater degree. Some experts suggest that for each inquiry beyond one or two inquiries a year, your credit score will fall anywhere from 6 to 12 points. So be careful about how many hard inquiries you have on your credit file by only applying for credit when it's absolutely necessary.