

What Affects Your Credit Score

Do you understand your credit and what you can do to improve your score? If you answer like most homeowners your answer is probably no. Your credit score is the number one piece of information that creditors are going to use to evaluate you as a borrower. It is becoming more and more common for not just creditors (i.e., mortgage and credit card companies) to check credit scores, including insurance companies, potential employers, etc. and even more scary, is recent reports that the Department of Homeland Security can assign you to their "Watch List" if you've been unable to open a bank account or get a mortgage due to bad credit.

Your credit score is a measure of your risk as a borrower. Creditors view your score in terms of risk, the lower the score, the greater the risk, and the higher the interest rate and, if you are buying a home, down payment required.

First let's take a look at what exactly affects your credit. The single biggest factor in establishing good credit is paying your bills on time. Having a large income or owing a lot of money won't really help you establish good credit. Paying your bills when they are due is the single biggest factor in achieving a high credit score. Late payments will appear on your credit report for two years. If an unpaid account is placed for collection, it is still not removed from your credit report. And even worse, a Chapter 13 bankruptcy stays on your credit report for seven years while a Chapter 7 bankruptcy appears on your credit report for ten years.

Some other factors that will influence your credit score include applying for credit. Applying for credit reduces your credit score. So this means that if you are going to purchase a home or refinance your mortgage to [stop foreclosure](#), you shouldn't have a lot of mortgage companies or banks pull your credit. This also means that you shouldn't go out and buy a new car with financing if you are trying to improve your credit score.

Another issue that will affect your credit score is having credit cards with high balances. Even if you make the payments on time, having high debts reduce your credit score. However, if you are applying for a mortgage or to refinance your mortgage, a lot of mortgage companies prefer three lines of credit to evaluate your credit worthiness but it is not absolutely necessary. What does this mean? If you don't already have a small line of credit established with a credit card company, it's time to get a credit card and make sure you are paying it off in full. This will establish a good credit history, but remember if you do have some credit established, applying for more credit will only hurt your credit score.

So where is all this information stored? There are three credit bureaus, [Equifax](#), [Experian](#), and [TransUnion](#). The three credit bureaus use the same algorithms to computer your credit score. This is a recent development through legislative changes. Nevertheless, your credit score may vary depending on the credit bureau because they each pull from a different database of information.