NVR Mortgage

Five Factors That Determine Your Credit Score

There are five main categories of information that credit bureaus evaluate. They also have different levels of importance. Please note:

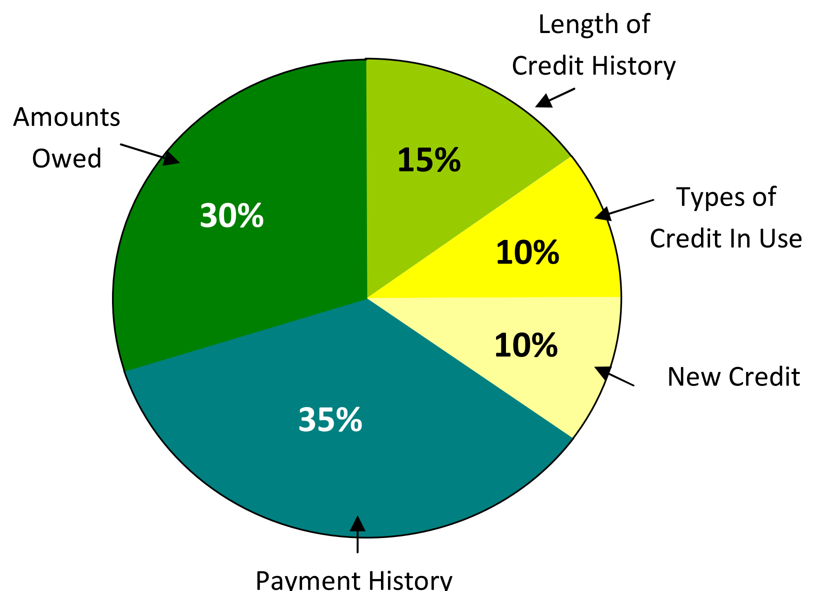
- **A credit bureau considers all five categories of information when determining your credit score.** No one piece of information or factor alone will determine your score.

- **The importance of any factor depends on the overall information in your credit report.** Your past credit history will have an impact on how the credit bureaus weigh each factor. As the information in your credit report changes, so does the importance of any factor in determining your score. Thus, it's impossible to determine how important any single factor will affect your score. The percentages listed below are a general average and can impact each person differently.

- **Credit bureaus only look at information in your credit report when determining your credit score.** Lenders consider many factors when making a credit decision, including your credit score and the information found in the credit report.

- **Your score considers both positive and negative information in your credit report.** Late payments will lower your score, but establishing or re-establishing a good track record of making payments on time will help to raise your score overtime.

How A Score Breaks Down



Factor 1 – Payment History

Approximately 35% of your score is based on this category.

The first thing any lender wants to know is whether you have paid past credit accounts on time. This is also one of the most important factors in determining your credit score.

Late payments are not an automatic "score-killer." For example, an overall good credit picture can outweigh one or two instances of late credit card payments. On the other hand, having *no* late payments in your credit report doesn't mean you will get a "perfect score." Your payment history is just one piece of information used in calculating your score.

Your score takes into account:

- **Payment information on many types of accounts.** These will include credit cards (such as Visa, MasterCard, American Express and Discover), retail accounts (department store credit cards), installment loans (loans where you make regular payments, such as car loans), finance company accounts and mortgage loans.

- **Public record and collection items—reports of events such as a bankruptcy, foreclosures, suits, wage attachments, liens and judgments.** These are considered quite serious, although older items may count less than more recent items. Bankruptcies, short sales, and foreclosures will stay on your credit report for 7–10 years.

- **Details on late or missed payments ("delinquencies"), public records and collection items.** The score considers how late they were, how recently they occurred, and how many delinquencies there are. For example, a 60-day late payment is not as risky as a 90-day late payment. However, how recent and frequent the delinquencies occurred will have an impact on the scores as well. A 60-day late payment which just occurred a month ago will affect a score more than a 90-day late payment from five years ago.

- **How many accounts show no late payments?** A good track record on most of your credit accounts will increase your credit score.

Factor 2 – Amounts Owed

Approximately 30% of your score is based on this category.

Having credit accounts and owing money on them does not mean you are a high-risk borrower. However, owing a great deal of money on many accounts can indicate that a person is overextended, and is more likely to make some payments late or not at all. Part of the science of scoring is determining how much is too much for a given credit profile.

Your score takes into account:

- **The amount owed on all accounts.** Even if you pay off your credit cards in full every month, your credit report may show a balance on those cards. The total balance on your last statement is generally the amount that will show in your credit report.

- **The amount owed on all accounts and on different types of accounts.** In addition to the overall amount you owe, the score considers the amount you owe on specific types of accounts, such as credit cards and installment loans.

- **Whether you are showing a balance on certain types of accounts.** In some cases, having a very small balance without missing a payment shows that you have managed credit responsibly, and may be slightly better than carrying no balance. On the other hand, closing unused credit accounts with zero balances and that are in good standing will not raise your score and can in fact hurt your score.

- **How many accounts have a balance.** A large number of accounts with balances can indicate that a person is at a higher risk of over-extending their credit, thus having a negative impact on their score.

- **How much of the total credit line is being used on credit cards and other "revolving credit" accounts.** Someone closer to "maxing out" on many credit cards is an indication that they may have trouble making payments in the future.

- **How much of installment loan accounts are still owed, compared with the original loan amounts.** For example, if you borrowed $10,000 to buy a car and you have paid back $2,000, you owe (with interest) more than 80% of the original loan. Paying down installment loans is a good sign that you are able and willing to manage and repay debt.

Factor 3 – Length of Credit History

Approximately 15% of your score is based on this category.

In general, a longer credit history will increase your score. *Your score takes into account:*

- **How long your credit accounts have been established.** The score considers both the age of your oldest account and an average age of all your accounts.

- **How long specific credit accounts have been established.**

- **How long it has been since you used certain accounts.**

Factor 4 – New Credit

Approximately 10% of your score is based on this category.

Research shows that opening several credit accounts in a short period of time represents a greater risk—especially for people who do not have a long-established credit history.

Multiple credit requests also represents a greater credit risk. However, credit bureaus can distinguish between a search for *many* new credit accounts and rate shopping for *one* new account.

Your score takes into account:

- **How many new accounts you have.** The credit bureaus looks at how many new accounts that have been established and take into consideration the type of accounts they are.

- **How long it has been since you opened a new account.** The credit bureaus review this by type of account.

- **How many recent requests for credit you have made, as indicated by inquiries to the credit reporting agencies.** Inquiries remain on your credit report for one year. The scoring models have been carefully designed to count only those inquiries that truly impact credit risk.

- **Whether you have a good recent credit history, following past payment problems.** Re-establishing credit and making payments on time after a period of late payment behavior will help to raise a score over time.

Factor 5 – Types of Credit in Use

Approximately 10% of your score is based on this category.

The score will consider your mix of credit cards, retail accounts, installment loans, finance company accounts and mortgage loans. It is *not* necessary to have one of each, and it is not a good idea to open credit accounts you don't intend to use. The credit mix usually won't be a key factor in determining your score, but it will be more important if your credit report does not have a lot credit history on which to base a score.