

## The Six Biggest Hits to Your Credit Score are...

With the focus on credit quality these days, the credit scores of principals/guarantors in the application process of securing a loan has become a greater focal point among lenders. Even Commercial Real Estate lenders (like life insurance companies) have paid more attention to credit scores over the last 2 years since the economic recession has taken hold. In fact there are few things in your financial life that affect your ability to secure credit more profoundly than your credit score. However, it still remains a relative mystery to as to what financial 'episodes' really affect your score dramatically and which don't. Some activities can just 'scratch' your credit score, while others can 'dent-in the whole fender'.

Until recently, credit bureaus didn't disclose how your payment lapses hurt your score. In truth, their reluctance to share is somewhat understandable as a myriad of variables contribute to creating your individual credit score.

- Your payment track record
- How much you owe
- How long you've had established credit
- Whether or not you're taking on new credit
- The types of credit accounts you have open

In short, everyone's payment history and financial picture differs considerably, so a precise 'number' per misstep is impossible to predict. However, from the limited data now being released by both [Fair Isaac Corp.](#), which developed FICO scores, and [VantageScore](#), the scoring model used by three of the major credit bureaus — Experian, TransUnion and Equifax, we can determine with relative accuracy, which 'financial transgressions' are particularly bad for your credit score and which are not.

So here they are in order of magnitude:

**1. Bankruptcy:** 165 to 365 points--depending on number of delinquent accounts and your score when it's reported. If your score was already low, you would be at the lower end of this scale. If your credit score is fairly high (say in the 700's) you would fall into the higher end of the range. In general, all the scoring models usually give the most weight to payment history, and bankruptcy is included in that category.

**2. Foreclosure:** 105 to 160 points

**3. Short sale mortgage:** A sales price lower than the outstanding balance was negotiated, but a delinquency was reported: 115-140 points

**4. Settling a credit card debt for less than is owed:** 65 to 125 points

**5. 30-days late on a payment:** 60 to 110 points

**6. Maxing out a credit card:** 10 to 45 points

Contrary to the many ads you see which claim to 're-build' your credit score, you can't actually rebuild the credit score. You have to rebuild your credit history which then is reflected in the score. The length of time to improve your credit history varies. Although late payments remain on your credit report for seven years, if you clear up all past due debts and pay on time for 6-9 months, you should be able to raise your score by more than 75 points on average.

The effects of bankruptcy, however, are long-lasting. A Chapter 13 bankruptcy, where you make partial repayments over a number of years, will remain a negative influence for nearly the full seven years or until all payments are made and new credit is established. Chapter 7 bankruptcy, or total liquidation, remains in your record for 10 years and has some effect on your score for the entire period.

The National Foundation for Credit Counseling suggests that you 'check' your credit score free, 1x annually at: [www.annualcreditreport.com](http://www.annualcreditreport.com) and review it for accuracy.

The bottom line is that credit quality can go a long way to cure other minor issues on a loan request, so it is always best to be sure to talk about your credit before submitting a loan to ACCG.