Are inquiries bad? And what's the difference between a "hard" inquiry and a "soft" inquiry?

What is an "inquiry" anyway? An inquiry is where a lender checks your credit, or "inquires" on your credit.

- Inquiries are impossible to avoid altogether. A potential lender/creditor has to inquire on your credit to see if they should loan you money.
- Lots of inquiries = bad. Why? Because it looks like you either (a) are having trouble getting credit or (b) are in the process of opening lots of accounts that will affect your ability to pay back the one that is inquiring.
- Inquiries will lose their sting faster than late payments. Because if you were opening an account due to the inquiry, it will show up on your credit soon, and the account reporting has more weight than the inquiry itself.
- What if you are buying a car and you sit down with the guy that is going to set up your loan, and he runs your application by three or four different lenders (which is typical, even if you have good credit)? Each one is a "hard" inquiry. But the law changed some years ago, and if you have multiple inquiries **from the same type of lender** (all car lenders for example), and **they are within 30 days of each other**, they count as one inquiry.
- In the same way, you are not penalized for shopping around for the best rate on a mortgage, which is smart, right? **As long as the mortgage lender inquiries are all within 30 days.**
- I wouldn't let anyone pull my credit until I was pretty sure I was going with that mortgage lender anyway. You should already know your approximate credit score before you start shopping for a mortgage, so you can just tell them "my score is about X" and they can quote you a rate based on that. Of course, if your score turns out to actually be a lot lower or higher, that may change the rate they quoted you.
- What is a "soft" inquiry? These are inquiries from potential employers, when you check your own credit, and insurance companies. Another example is lenders you already have an account with (they want to see if they want to offer you additional credit, or whether they should cut back on the credit they are offering you because it looks like you're getting in trouble. In the small print of the stuff you signed when you took out the credit, you agreed to let them do that.) Anytime someone tells you their inquiry won't affect your credit score, that is a "soft" inquiry.
- Can you get credit without having your credit checked? Generally speaking, no, and if you do, you will pay dearly for the credit since they know there is only one reason you don't want to have your credit pulled. There is no such thing, that I am aware of, as a mortgage where they won't check your credit. Would you loan hundreds of thousands of dollars to someone you had no clue whether they would pay you back? I didn't think so.

- 1. Pay all bills on time.

- 2. Pay all bills on time. No, really.

- 3. Pick and choose who you open credit with. More is not better in this case.

- 4. Have some credit though. If you have no credit or very limited credit, your score can't calculate because there is not enough information to go on. Ironic? Maybe.

- 5. Don't use every bit of the credit available to you. Keep some, as much as possible, not used, and just available for emergencies.

- 6. Think long and hard about a giant car payment. Cars are a depreciating asset, which means they are worth less over time. You may "qualify" for the car of your dreams, but should you? A car payment nearing the size of a mortgage payment is only for very wealthy people. According to Carfax, the value of a new vehicle drops by about 20% in the first year of ownership. Over the next four years, you can expect your car to lose roughly 15% of its value each year – meaning the average car will be worth just 40% of its purchase price after five years. Is that an investment that makes sense for someone trying to build/improve their credit? Any car loan will affect your credit, and a reasonable payment that you can for sure pay on or before the due date every month is going to affect it positively.

- 7. If you are very short one month and have to choose what to pay within 30 days of the due date: pay housing, car payment, and at least the minimum payment on all credit cards first. Pay utilities and insurance second as they generally don't report to the credit repositories, unless you default on an amount you owe them, such as not paying the last bill when you move.

- 8. Avoid payday lenders and other short-term signature-type loans.

- 9. If you overdraw your checking account, don't leave it that way long. See if you can set up a small line of credit with your bank that will pull $100 if you overdraw. Don't use it like a credit card though. Pay it back as soon as you get paid next time.

- 10. Pay an account off and leave it that way. Lenders usually report once a month to the repositories, and it is NOT necessarily the day after your due date. So I often hear “I pay that account off every month! Why is it showing a balance on my credit report?” It’s because there is always a balance on the account if it is reported before the due date. Pay off all small balances on revolving accounts and leave them paid off to maximize your credit score. Revolving accounts are ones that you can pay off and then charge on them again. An exception to this rule is if you have very limited credit and are trying to build a credit profile. Then I would charge something every month, and then pay it off on or before the due date.

- 11. Limit who you let pull your credit. More on inquiries below.