

# The Truth About Multiple Credit Inquiries

By Michelle Singletary

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When you go shopping for a car or a home, do you become a little concerned when you hear these words: "Can I pull your credit report?"

Lots of consumers bristle because they think this means a credit inquiry may be posted on their credit report. The credit-smart folks out there understand that with too many credit inquiries, their almighty credit scores (generated by each of the three major credit bureaus) could take a hit.

In fact, a reader wrote to me on this very issue: "I hear that every time you test-drive a car the dealership runs a credit check, and since the big three credit-reporting companies penalize you (i.e., lower your credit rating) for more than three credit checks within a certain time period, the test drives can cost you."

Is this reader right?

I put the question to Fair Isaac Corp., the company that created the FICO credit-scoring model many lenders use.

"It's ironic that so much attention gets focused on credit inquiries because they are such a tiny part of the FICO score," said Craig Watts, public affairs manager for Fair Isaac.

For starters, Watts dispels the notion that there is an inquiry quota of three. "That's a myth," he said.

But perhaps it would help if I first explained why the scoring models count inquiries or requests from lenders in the first place. Lenders use scores to assess how risky a borrower might be, and multiple credit inquiries could indicate that someone is having money problems and needs lots of credit.

So here's the truth about credit inquiries, according to Fair Isaac:

- The credit-scoring model recognizes that many consumers shop around for the best interest rates before buying a car or home and that their searching may cause multiple lenders to request their credit report. To compensate for this, multiple auto or mortgage inquiries in any 14-day period are counted as one inquiry.
- In the newest formula used to calculate FICO scores, that 14-day period has been expanded to any 45-day period, Watts said. This means consumers can shop around for an auto loan for up to 45 days without affecting their scores. But the old 14-day rule might still apply at some lenders that aren't using the new version.

The newest FICO version went online at all three credit agencies -- TransUnion, Equifax and Experian -- in 2004, Watts said. Typically, it takes lenders months to adjust their processes so they can accommodate revised formulas -- and some lenders never adjust, he said.

- The FICO score ignores all mortgage and auto inquiries made in the 30 days before scoring. If you find a loan within 30 days, the inquiries won't affect your score while you're rate-shopping.
- Each "hard" credit inquiry (meaning the consumer has applied for some form of credit, prompting the creditor to check the credit report or score) that is counted normally subtracts no more than five points from a person's score. Often, no points are subtracted.
- The score does not count requests that a lender has made for your credit report or score in order to make you a "preapproved" credit offer (you know, those darned offers that crowd your mailbox).
- The formula doesn't count inquiries made by a lender reviewing an account you already have with that lender.
- Inquiries that come from employers are not counted. Nor is it counted when you ask to see your own report or score.

"Realistically, only a narrow group of people has good reason to be cautious about the effect inquiries could have on their FICO score," Watts said.

Here's who might be concerned, according to Watts:

- People who take an unusually long time (several months) to shop for a new mortgage or auto loan.
- Consumers who shop around in the same year for several different lines of credit not associated with a mortgage or auto loan.
- People who know before they begin applying for credit -- presumably from conversations with creditors -- that their credit score barely qualifies them for their desired credit offering.

"We generalize by saying that typically no more than 10 percent of a FICO score's weight is determined by a person's taking on [and searching for] new credit," Watts said. "But for most people, inquiries have little to no influence on their FICO scores."

So there you have it: the lowdown on credit inquiries.

*Michelle Singletary discusses personal finance Tuesdays on NPR's "Day to Day" program and online at <http://www.npr.org>. Readers can write to her at The Washington*

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