Does Refinancing Affect My Credit Score?

ratementor.com/refinancing/refinancing-credit-score-effect

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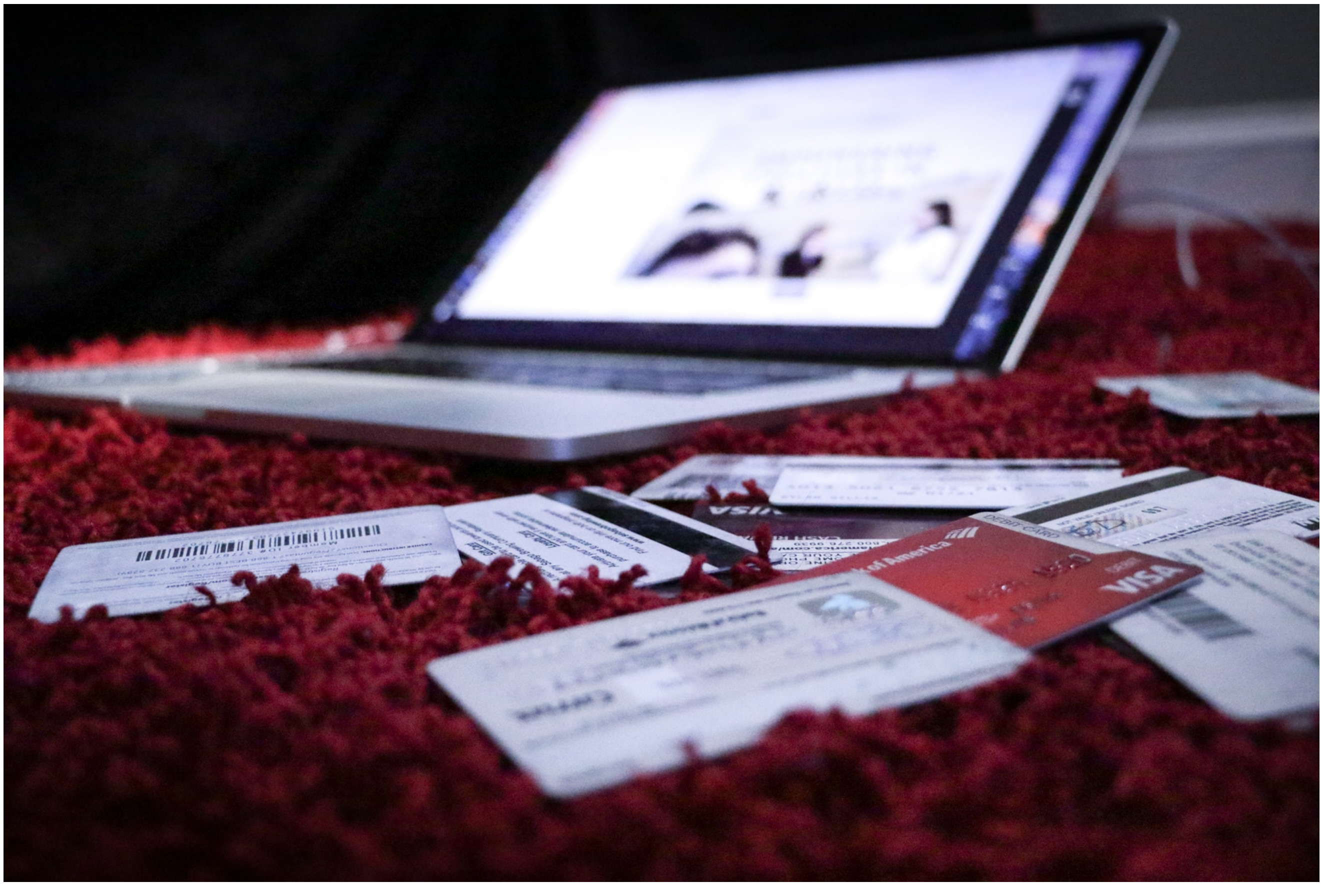

Refinancing your mortgage can affect your credit score in a few different ways. Therefore, it's important to consider the credit impact of a refinance before you go through with one.

Let's take a look at how and why refinancing can affect your credit score.

Old Debt Is Better Than New Debt

The age of your credit accounts is an important factor in your credit score. In fact, the length of your credit history accounts for 15% of your FICO score.

When you refinance your mortgage, you are technically paying off your old mortgage and so closing it. In most cases, this loan has a relatively long history of on-time payments. Accounts like these help your credit score.

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On the other hand, new credit accounts can negatively affect your credit score. Since you are taking out a brand new loan on your home, this loan can bring your score down until you've established a good history of paying it off.

Cash-Out Refinancing Can Hurt Your Credit Score

There are two ways that cash-out refinances can hurt your credit score. The first is that you will be replacing old debt with new debt.

Another way cash-out refinancing can hurt your credit score is that the larger loan balance can raise your credit utilization ratio. This ratio counts for nearly a third of your credit score.

Shopping For Refinancing Can Also Hurt Your Credit Score

Image courtesy of **Andrea Piacquadio** from **Pexels**.

If you are constantly refinancing your mortgage, you could be doing damage to your credit score. This is because when you refinance, your lender will pull your credit. Credit bureaus penalize you for having too many hard credit pulls over a short period of time, especially when it's from multiple creditors.

However, shopping for interest rates doesn't hurt your credit as much as it used to. In 2009, credit scoring systems made adjustments to how they calculate your score for specific types of large debts, such as student loans or mortgages.

If you want to apply for multiple loans to shop around, you can now limit the effect this search has on your credit score. FICO and other bureaus recommend that you do all of your applications within a 30-day period if possible. After some recent changes, multiple inquiries made in the same period count as just one credit pull.

However, not all lenders use this new scoring model. Since some lenders may use an older model, you should keep your inquiries within a 14-day window if you want to be as safe as possible.

The Takeaway

Mortgage refinancing can hurt your credit score. This is especially true if you refinance often or add to your debt with a cash-out refinance.

However, the benefits of refinancing your mortgage can outweigh its impact. Even a small reduction in your interest rate could save you tens of thousands of dollars over the lifetime of your loan.

A professional, qualified mortgage broker can help you understand how refinancing your mortgage can help or hurt your credit score. They can also help you assess your financial situation and provide you with a shortlist of lenders so that you can shop around while minimizing the effect on your score.

Credit Score **Lenders** **Mortgages**

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