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Does Applying for a Loan Affect

Your Credit Score? Everything You

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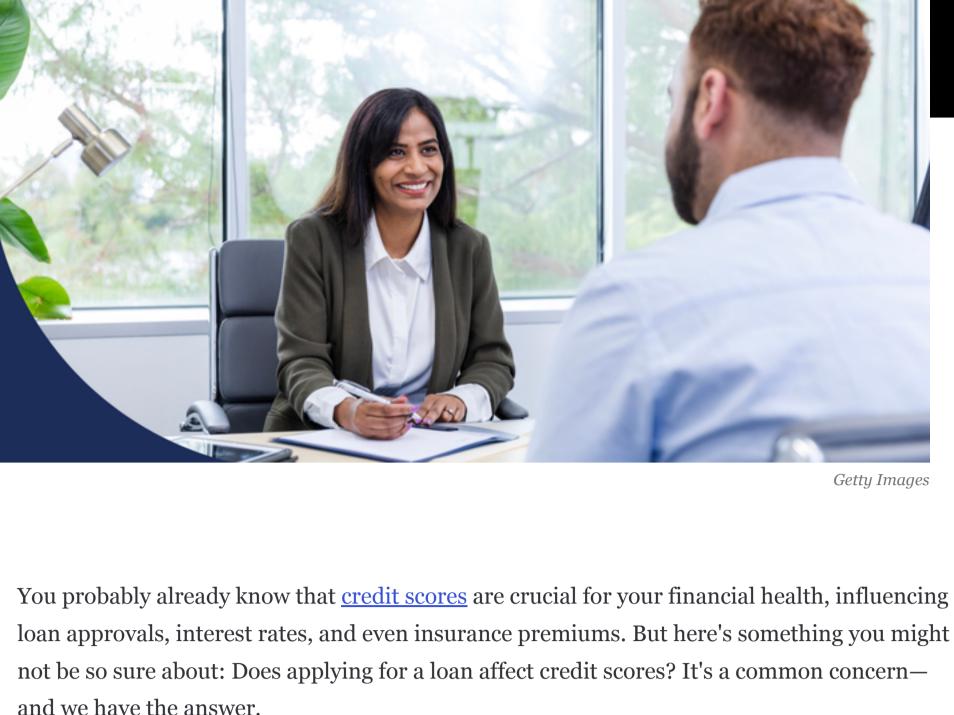
by The Muse Editors

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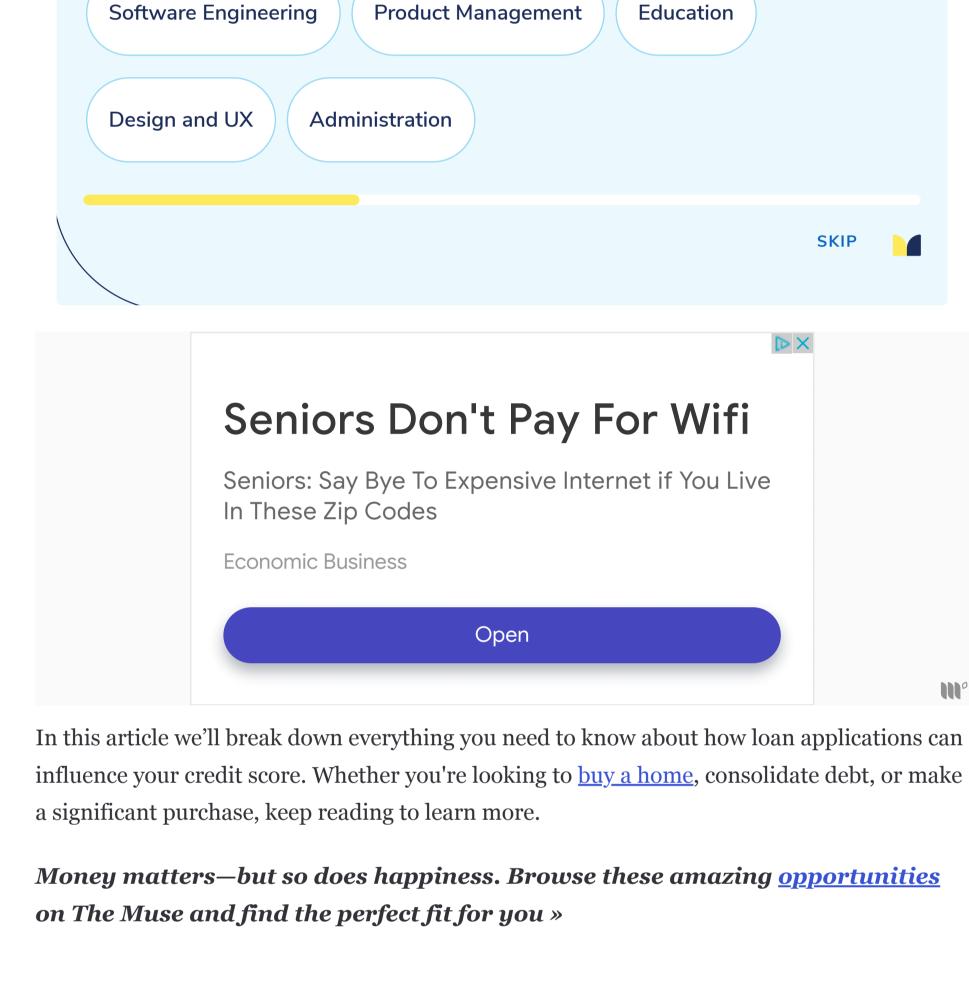
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A soft credit check, also known as a soft inquiry, happens when a lender or creditor reviews your credit report as part of a background check or pre-approval process. These checks are frequently used for promotional offers or employer background checks. D X

Can applying for loans hurt your credit score?

typically perform either a soft credit check or a hard credit check to assess your

creditworthiness. Let's understand the difference between them.

Short answer: yes, applying for a loan can affect your credit score. However, the impact

depends on the type of credit check conducted during the application process. Lenders

The key point is that soft inquiries don't have a negative impact on your credit score. You can

check your own credit report without any negative consequences, and lenders can also

A hard credit check, or hard inquiry, happens when you apply for credit, such as a loan,

credit report and can temporarily lower your credit score.

mortgage, or credit card. It's a more in-depth examination of your credit history, including

past loans, credit card usage, and payment patterns. This type of inquiry is recorded on your

perform soft checks without affecting your score. **Hard credit checks**

Soft credit checks

Most lenders will start with a soft credit check to certify you're eligible, but they'll do a hard inquiry later in the process as a final check. "The best way to avoid hurting your credit score is to talk to the lender about their credit check process," says Joe Camberato, CEO of National Business Capital, a national lending

seven years. That's why it is so important to be cautious before applying for a loan. "A common mistake

"Missing payments can drop your score by as much as 100 points—be honest about what you

Your credit utilization ratio (which is the amount of credit you're using compared to your

total available credit) also plays a crucial role in your credit score. Taking out a large loan can

increase your credit utilization ratio, especially if you use the loan to pay off credit card debt

"One way to apply for a loan without hurting your score is to keep your credit utilization ratio

low-below 30%. If your credit limit is \$10,000, try to keep your balance under \$3,000,"

Each time you apply for a loan, a hard inquiry is added to your credit report. Typically, a

single hard inquiry may lower your score by a few points, but multiple inquiries in a short

However, credit scoring models often treat multiple inquiries for the same type of loan (e.g.,

If you already have a significant amount of debt, taking out additional loans can exacerbate

mortgage, auto loan) within a short period as a single inquiry to allow for rate shopping.

period can have a cumulative and bigger effect. According to Schmied, lenders may see

can handle," Schweiz says.

High credit utilization ratio

and then continue to carry high balances on your cards.

multiple loan requests as a sign of desperation.

Schmied says. "Pay down as much as you can before applying, and don't close old accounts they help your credit history." **Multiple hard inquiries**

the problem. High debt levels can make it difficult to manage your finances and keep up with payments, leading to a higher risk of damage to your credit score. (For advice on how to become debt-free, read this.)

High debt levels

responsibly.

Establishing a credit history

If you have a limited or nonexistent credit history, taking out a loan and making timely

managing different types of credit accounts responsibly.

Building a positive payment history

chances of being approved for credit in the future.

Reducing the credit utilization ratio

Diversifying your credit mix

payments can help you establish a credit history. Lenders like to see you have experience

Your credit mix, or the variety of credit accounts you have, is another factor that influences

your credit score. Having a diverse mix of credit accounts, such as installment loans (e.g.,

loan adds to this mix and shows that you can handle different types of credit.

lower credit utilization ratio proves you are not overly reliant on credit.

auto loans, personal loans) and credit cards, can positively impact your score. Taking out a

Consistently making on-time payments on your loan can significantly boost your credit score.

If you use a loan to pay off high-interest credit card debt, you can lower your credit utilization

ratio (remember, 30% is a very good mark). This can positively impact your credit score, as a

A solid payment history shows lenders you are a reliable borrower, which can improve your

purchases to debt consolidation and <u>business ventures</u>. However, it's important to consider it carefully and make informed decisions. Take these steps before taking on a loan:

Assess your financial situation

Carefully analyze your income sources and monthly expenses. Can you comfortably afford the loan repayments without compromising your essential financial obligations? To evaluate that use the debt-to-income ratio and compare your total monthly debt payments (current

expenses, for example, explore scholarship and grant opportunities that can reduce your reliance on loans. "Loans like FHA or VA loans can be a good option if your credit isn't perfect. These loans often have better terms and lower down payment requirements—sometimes as low as 3.5%,"

Plan for repayment

get better terms."

FA0s

long run.

options to find a lender who gets your situation."

funds allocated each month. Develop a plan to handle unexpected financial situations that might impact your ability to make loan repayments. Planning ahead can help you avoid late fees and negative marks on your credit report. **Improve creditworthiness**

viable option. (But if you've already taken out a student loan, here's how to pay it off fast.)

Create a budget that incorporates the loan repayment amount and ensure you have sufficient

Can I apply for a loan without affecting my credit score? Yes, you can apply for a loan without affecting your credit score by opting for lenders that do

How long does applying for a loan affect credit?

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marketplace. "This way, you'll know when your credit score might be affected." How or when loans can hurt your credit? Taking out a loan can have negative effects on your credit score if not managed properly. Here are some ways loans can hurt your credit: **Late or missed payments** One of the most significant factors in your credit score is your payment history. Missing loan payments or making late payments can severely damage your credit score. Lenders report

late payments to credit bureaus, and these marks can stay on your credit report for up to

people make is going for loans they can't realistically repay," says Michael Schmied, financial

analyst at Kredite Schweiz. "For example, if you're making \$3,000 a month, don't take a loan

that requires \$2,000 monthly payments. It's just not sustainable.

How or when loans can help you build your credit On the other hand, loans can also have positive effects on your credit score when managed

Things to consider before taking a loan Loans can be a valuable tool for financing various needs, from education and major

and future) to your gross monthly income. A high ratio indicates a significant debt load, which isn't prudent. Bonus tip: Having a healthy savings buffer can give you a safety net for unexpected

Read the loan agreement thoroughly to avoid surprises down the road. Anything that seems

"If you're getting similar offers from several lenders and then one suddenly offers you a much

cautious," Camberato says. "There might be hidden terms in the contract that make it more

expensive or restrictive, or the lender could be trying to lure you in with attractive terms only

Another big red flag, warns Schmied, is when lenders offer very short repayment terms. "This

can mean sky-high monthly payments that you might struggle to afford," he says "Imagine

Sometimes, alternative methods might be more cost-effective and less risky. For educational

Schmied says. "Credit unions and community banks can also be more flexible. Explore these

larger amount, lower interest, and longer repayment terms without a clear reason, be

you take a loan with a 12-month term, but your monthly payment is \$1,000—it's a recipe for stress." **Consider alternative financing options**

expenses and ensure you don't fall behind on loan repayments.

Understand loan terms and conditions

too good to be true should raise a red flag.

to change them later on."

In some cases, borrowing from family or friends with clear terms and agreements can be a

A few strategies can help individuals with low credit scores improve their creditworthiness and qualify for better loan terms. However, according to Camberato, there's no quick fix: "If you're planning to apply for a loan, spend the time beforehand lowering balances, disputing any errors, and establishing a history of on-time payments. The more time you have to do this, the better." Schmied offers other ways to improve creditworthiness: "If your credit score is low, consider a secured credit card to rebuild it. Also, don't open multiple new accounts at once—that can drop your score. When you're ready to apply for a loan, show lenders your improved habits to

Does my credit score go down when I apply for a loan?

Applying for a loan can cause a small, temporary decrease (around 5 points or less) in your

credit score due to the hard inquiry made by the lender. However, if you manage your new

loan responsibly by making timely payments, it can positively impact your credit score in the

Does applying for a car loan affect credit?

shopping for the best mortgage terms.

soft credit checks instead of hard inquiries. Soft inquiries don't impact your credit score and can give you pre-approval or initial loan offers. However, keep in mind that final loan

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Yes, applying for a car loan results in a hard inquiry on your credit report, which can slightly lower your credit score temporarily. The impact is usually around five points. Do multiple mortgage applications hurt credit? Multiple mortgage applications can temporarily lower your credit score due to hard inquiries from lenders. However, if these inquiries occur within a short period, typically 14-45 days,

credit scoring models like **FICO** and **VantageScore** treat them as a single inquiry to allow rate

A hard inquiry from applying for a loan typically affects your credit score for about 12

months. However, the check will remain on your credit report for two years. The overall

impact of a hard inquiry is reduced over time, especially if you keep good credit habits.

approval will typically require a hard inquiry, which can slightly affect your credit score. Always ask the lender about their inquiry process before applying.

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