Nine Key Credit Factors that Could be Damaging Your Credit Score Right Now

Do you know the main credit factors that affect your FICO credit score? If you don't know these nine key factors, you could be unintentionally damaging your credit score and chances at better financing terms.

Before discussing the Credit Scoring Factors, please keep one thing in mind: do not make any major changes to your credit before discussing it with your loan officer and chart the proper course. Many borrowers shoot themselves in the foot by doing something to their credit that could have been prevented.

Credit Factor #1

Maxing out your credit cards is credit score suicide. Your scores will suffer once your total balance is above 30% of your available credit line and really suffer once you are above 50% of the available credit.

To increase your scores quickly, pay down your credit cards immediately.

Credit Factor #2

Leaving a balance on your cards each month will harm your scores. If you pay off your cards to zero each month, you will have a higher score.

Remember to allow time for the cards to report to the credit agencies when paying off cards. It often takes over 30 days to accurately update your balances and reflect in your scores. Plan early. Do not try to do these things the day or week before you apply for a mortgage.

Credit Factor #3 - THIS IS IMPORTANT

Many people are falsely advised to close credit card accounts after they are paid off. This is 100% wrong. You will damage your credit scores when you do this. Leave them open if they aren't bothering anyone. More good accounts with zero balances will help your scores.

When you close accounts, your pool of available credit shrinks, and you now have a higher ratio of used to unused credit (see #1 above). This makes you appear closer to "maxed out" than before, and your scores drop.

A perfect example is the practice of consolidating credit cards and closing the ones you just paid off. When you close the other card accounts, your scores will drop significantly - as many as 100 points. Therefore, if you decide to consolidate debt to just one card, leave the other cards open with a zero balance.

Credit Factor #4

Home Equity Lines of Credit (HELOC) must be used wisely. A HELOC is just a big revolving line of credit secured by your home. If you have a HELOC and use more than 30% to 50% of it, your scores will suffer, similar to credit card balances.

A HELOC is not a problem, and in fact can be a very good thing, when it is not overly used. A large revolving account with no or little balance will help increase your scores.

Credit Factor #5

Be wary of lenders who won't report your credit or don't report it accurately. Some credit card companies do subtle things to actually sabotage your credit history. This is not by intentionally reporting the wrong information, as this is illegal (sure, credit companies make honest mistakes, but this is not the issue here).

First, some credit card lenders do not report your credit history at all. They are under no obligation to do so, as credit reporting is a voluntary practice. By not sharing your credit history, they limit their competition from seeing your good history and making you a better offer.

Second, and worse, some lenders report your current balance as your credit limit, making you always look maxed out. This lowers your scores even with a perfect payment history.

Credit Factor #6

Excessive credit inquires will lower your scores. There is no exact formula for how much each inquiry will count, but it is safe to say that your scores will be negatively impacted.

Do not allow potential lenders or brokers to run your credit until you have chosen who you want to work with. If you know your scores, there is no reason for a lender to run your credit while you are just shopping for the best program features. This is entirely under your control: if you give out your social security number, it is implied permission to run a credit report - so do not do it!

Credit Factor #7

Installment accounts are treated differently than revolving accounts. In fact, it is actually to your benefit to keep installment accounts in good standing for as long as possible. This means not paying off your car loans or other installment loans early, unless there is an overriding reason to do so.

This is somewhat opposite of how to deal with credit cards and other revolving debts.

Credit Factor #8

Pre-approved offers are not approved offers. You may receive a ton of pre-approved credit offers in the mail. This is just a marketing technique to get your to apply for credit. If the offer is asking you for a social security number, it is not an actual approval.

Credit Factor #9

Narratives on your credit report, either placed by you or by a lender, are a negative.

Lender narratives are things such as Charge Off, Collection Account, and Account Paid Less than Full Balance. These all indicate that something other than a perfect payment history has happened. If you pay your bills on time, there will never be a reason for a narrative from a lender.

Credit reporting agencies allow you to place a consumer statement on your report, usually up to 100 words, to explain why something is the way it is on the report. Do not do this.

First, consumer statements are not in any way factored into your credit score. And, lenders don't read them. You can write excuses all day long, but no lenders take them into account when qualifying you for the loan.

Second, you can actually hurt your credit score by adding a statement that updates and verifies a negative.

The best practice is to avoid any kind of statement or narrative being placed on your credit report.

About the Author

Chris Esposito provides owner-builder construction financing nationwide through his Owner Builder 101 program. Visit www.OwnerBuilder101.com to get all the information you need to be a successful owner-builder, saving tens of thousands on your next home. Or call Owner Builder 101 at (877) 876-3688.