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ARBOR ADVICE

Helpful financial tips provided by Arbor Bank

6 Small Mistakes that Hurt your Credit Score

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Most consumers understand that bankruptcy or foreclosure will damage their credit score, but there are plenty of other small mistakes a consumer can make to turn a good score of 750 into a mediocre 660.

Here are some of the more common mistakes to steer clear of, plus tips to avoid them in the future.

Opening Too Many Accounts at Once and Applying for Credit too Often. Credit card sign-on bonuses can be tempting, but don't sign up for every card that offers cash back or a discount at the register. Each application and resulting credit pull generates an inquiry that will appear on your credit report. Every inquiry will lower your score three to five points and stay on your report for two years. Additionally, five inquiries or more within six months can significantly lower your score. However, keep in mind the 7 day rule - multiple inquiries within seven days only count as one - allowing you to shop around for the best loan deal.

Missing a Payment. One missed payment may seem innocent, but a single delinquency can cause your credit score to fall more than 100 points. As long as the missed payment isn't the start of additional problems, your score should rebound fairly quickly and can return to good standing in about 12 months.

Closing an Old Account. Think twice before closing that credit card you opened years ago. If you've had an account open for 10 years or longer it can help maintain a higher credit score. Additionally, closing an old revolving account can have a negative impact on your credit score since it may lower your credit-to-debt utilization ratio (how much credit you have available versus how much you are actually using).

Maxing Out a Single Credit Card. It's never a good idea to use your entire credit limit since your credit utilization ratio will appear sky-high. If you do have a particular card that's at or near its limit, try to pay it down as soon as possible. We suggest making sure your balance is less than 33% of your available credit line.

Ignoring an Account That Has Gone Into Collections. You may think you don't owe that random bill that keeps getting sent to your house, but your score may be in jeopardy if it doesn't get paid. Many creditors send unpaid bills to a collection agency and will report you to the credit bureaus. In the case of medical bills, we suggest making sure the lines of communication are open between you and your medical provider and then following up on any unpaid insurance claims in a timely fashion.

Not Checking Your Credit Report. Make sure to take advantage of your free annual credit report at www.annualcreditreport.com. It allows you to check for incorrectly reported information that may damage your score. Errors on credit reports are common - about 30% to 40% of credit reports have some type of error on them. Check out our Arbor Advice article on Free Credit Reports for more information.