HOW TO PROTECT YOURSELF FROM THE CREDIT SCORE KILLER

Take a tip from a seasoned mortgage banker

By Christopher Doyle

Emily Rojas, a single mother with two children, had worked hard for many years as a registered nurse to save up enough money to make a small down payment on a home. So that she could show a potential lender a satisfactory credit history, she took the advice of a friend and opened up an unsecured credit card. She never missed a payment for the eight months that she had the card.

Emily came to me seeking an approval for a home loan and when I accessed her credit, she was shocked to discover her credit score was only 620.

“Why is my score so low?” she asked. A quick scan of her credit report led me to her account with Capital One, a revolving account with a $500 limit and a $490 balance. “There’s the problem,” I said. “You’re not properly managing your account with Capital One.” “But I pay it on time every month,” she replied.

I explained that paying it on time was not enough – she needed to keep her “proportional balance” low. Emily was learning a lesson that many consumers never learn, that carrying high balances on credit cards is a credit score killer.

I have reviewed literally thousands of credit reports in my career and have determined that high "Proportional Balance" is a major score killer. For instance, if a credit card has a credit limit of $1,000 and the balance is $900, then the consumer is using 90 percent of his available credit -- way too high.

To achieve optimal scores, I regularly advise my clients to carry no more than 10 percent of their credit limit on any credit card at any time during the month. That's $50 on a $500 credit limit, a difficult threshold for many people to maintain. I also urge them not to close revolving accounts and occasionally use cards with zero balances, just to keep them active and reporting to the bureaus.

In Emily’s case, she was utilizing 98 percent of her available credit on the Capital One account. She was also getting slammed because the account was not “seasoned.” She had not had the account open very long and already it was maxed out. The credit scoring model that calculates the score sees new credit that is maxed out and drops the score exponentially.

After our meeting, Emily immediately paid her Capital One account to zero (but did not close it). Her score shot up to over 700 the next time we accessed her credit.