

Credit 911: Why is my credit score so low?

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Tracy Becker is a Tarrytown-based credit expert. scores to linger at a low level:

Q: After reading a few of your Q&A columns I ordered my Fico scores. I was shocked to see my score was below average. I have one credit card in my name, a retail store card, and my sister gave me an authorized credit card on her Visa account. They are all about two years old. I had two late payments on the Macy's account due to confusion with setting up online payments. These late payments occurred when I first opened the account and they were for a very low dollar amount. I called Macy's at the time and they said they would waive the late charge so why would these delinquencies still be showing up on my credit?

A: There are many factors that are affecting your credit causing your

1. First you have a somewhat young credit profile. Your average age of credit is two years old, so you are not a long term established credit manager. If you had older credit you would also receive the benefit of gaining more points on your credit score since older credit makes you a lower risk due to the long term practice you would gain. This is one benefit age delivers in regard to old accounts. Of course, if you have poor pattern payments on your credit, the age will not outweigh the affect of the extreme late payments.

2. You also lack a fully balanced mix of credit. Having a nice amount and variety of credit can add more points to your score once it becomes seasoned. It would be an asset over time to have some type of installment credit, such as a car loan or lease, a student loan, or even a secured personal loan with your current bank.

A mortgage also would be an asset since it is the hardest type of credit to gain approval for therefore adding more points to your score once seasoned.

3. Having one recent late payment can drop scores dramatically, but two have a greater affect for a longer period of time. When Macy's agreed to wipe off the late fee charged after receiving your payment, it had nothing to do with your credit report. A late fee and late payments on credit are two entirely different things. It seems many consumers confuse the two. They would have needed to agree to remove the derogatory information from your credit history and would have had to contact the credit bureaus and request this change.

If the situation was different and you had five to seven accounts in your name with their average age being 10 years old, plus these accounts included a good mix of installment, revolving and mortgage accounts, your scores could be much higher right now.

When it comes to credit scores, it is not just what is delinquent that causes scores to be low, but also what the credit as a whole contains. Besides your credit age, history, and mix, there is also debt. A great affect of debt on scores presents itself in the form of balance-to-limit ratios on your revolving credit. Revolving credit includes credit cards, overdraft on checking and some credit lines.

If the balances are over 7% of the limits this also will cause scores to drop. As balances creep up to limits, scores drop further. The higher your scores are, the more they will drop as the balances inch closer to limits.

Since having high debt ratios is, in many cases, a precursor to default, the score has to reflect the risk level it brings. When scores are higher they must drop lower to show a lender or creditor the higher risk borrower the consumer has now become.