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Little Actions That Can Hurt Your Credit Score a Lot

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We've heard the warnings before, but now that the holiday shopping season is upon us, it may be useful to hear it again: Back away from the wallet, put down that credit card, and think about what you're about to do. Even the tiniest action, when it comes to credit, can **hurt your credit score**.



Mark Lennihan for AP

For instance, according to Tracy Becker, president and founder of **North Shore Advisory Inc.**, a Tarrytown, NY-based credit restoration and education company, when a third party reviews a consumer's credit profile (as they do when you apply for a credit card or mortgage) it can cause your credit score to drop by as much as five points. Or, if you end up inadvertently charging over your credit limit -- even by as little as 10% -- that action can bring your credit score down by as much as 100 points.

Here's something else to watch out for: When you apply for an in-store credit card, your credit score can drop by as much as 52 points, according to Rob Wyse, a spokesman for **FreeScore.com**, a website that offers people unlimited access to their credit scores. (To use this service, FreeScore.com offers a seven-day trial period then starts charging \$19.95 a month if you don't cancel the service). Wyse also says that increasing a credit card balance by, say, \$2,000, can lower your credit score by as much as 68 points.

Because so many financial missteps can send a credit score plunging, Wyse says, his company recently debuted its FreeScore.com Credit Score Predictor, an online tool that lets consumers input financial decisions they plan on making and then see what's likely to happen to their score.

But whether you want to monitor your credit score on a regular basis or just check it when you want to get a good rate on a loan, it's still critical for you to understand how your credit score is affected by seemingly random

decisions. Understanding those actions -- and how to stop them -- can save you some serious money.

As Carrie Coghill, director of consumer education at FreeScore.com says, "Your interest rate on a loan is dependent on your credit score, and if you make a decision where your credit score drops 20 points and you're applying to get a \$300,000 mortgage, that can cost you over \$16,000."

If you're thinking about buying a house or trying to get a car loan in the next six to 12 months, you should pay extra attention to the actions you're taking now that can affect your credit score in a negative way. "It's much easier to decrease your credit score than it is to increase [it]," says Coghill.

So if you need to bolster your score, you may just want to stick with debit cards and cash this holiday season, and avoid applying for any **department store cards**.

On the other hand, if you aren't going to be seeking a loan anytime soon, worrying about your credit score shouldn't be the first thing on your mind. "For the people who get stressed worrying about their credit score, my main message would be to remember that paying down your debt in the most efficient and aggressive way you can is the best way to improve your credit score," says Curtis Arnold, founder of CardRatings, a credit card comparison site.

Arnold adds that FICO's credit score is continuously evolving and the way it's evaluated has been changing lately toward "putting more weight on recent items." While that may sound scary for those who don't want to make a foolish blunder now, it's comforting to know that as your mistakes age, they're going to affect your credit score less.

"We all make mistakes, and I think that's the spirit of the new FICO," says Arnold. For instance, if you're late with a credit card payment by a day or two, it won't be reported to the credit bureaus, according to Arnold. Thirty days, however, is another story.

"A small, random financial decision can make a very significant impact on your credit score," says Arnold, "but one false move isn't going to kill your score or future hopes of getting credit. It's not like we're living in a scenario where the credit gods are waiting for you to make the wrong move."

The best advice we can offer? Be smart about using your credit cards this holiday season, and you won't have any "credit score hangover" to recover from.

*Geoff Williams is a regular contributor to WalletPop and is the co-author of **Living Well with Bad Credit**.*

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