Factors That Affect Credit Score

Several factors influence your CIBIL or credit score and contribute to bringing down the number. However, here are the prime factors that are likely to impact your credit standing.

• Length of Credit Record:

The age of your credit record generates a clear insight into your financial health. It essentially means that you have been in the credit system for a significant period, which allows the lender to better evaluate your credit management skills. On the other hand, it is not favourable for lenders to ascertain your repayment behaviour in the absence of an aged credit record. Lenders are likely to stir away from rendering funds in uncertain situations.

• Credit Repayment History:

The credit repayment history provides a breakthrough into your ability to make credit repayments. It is also the most important component considered when evaluating your credit score. The repayment record reflects your ability to diligently meet your financial obligations through timely credit and EMI payments. When you default on any credit card dues or do not make your loan repayment within the stipulated time, it harms your credit health, leading to a significant drop in your credit score.

• Credit Utilization Ratio:

The credit utilization ratio reflects your hunger for credit. It is the ratio of your credit utilization to the total amount of credit limit available against your account. When you exceed your credit utilization ratio, your profile is negatively viewed by the credit bureaus. It essentially increases the probability of you defaulting on loan repayments. As a rule of thumb, limit your credit utilization to about 25-30% of the credit usage offered to you.

• Credit Mix:

The credit score is also greatly influenced by the mix of credit accounts against your loan portfolio. A portfolio essentially includes the number of secured and unsecured credit lines against your name. As the name suggests, a secured loan is backed by collateral in the form of an asset. A non-secured loan is offered with the security of collateral. Effectively servicing a mix of loan EMIs and credit card dues proves your ability to manage the different kinds of available loan options. It further helps strengthen your credit history and makes your profile appear creditworthy.

• Debt to Income Ratio:

The debt to income ratio is widely considered by financial institutions before approving your credit applications. It indicates the level of open credit accounts that you hold and a higher ratio shows that you are already overburdened by monthly EMIs. It is best to keep your spending in check with a debt to income ratio that lies in the range of 25% to 35%.

• Not Making Repayments Responsibly

The way you manage your repayments has a big influence on your score. Make it a habit to pay your loans and credit bills on time as per the schedule. Even 30-day delinquency in making a repayment can reduce your score by a mighty 100 points. Set up reminders and alerts to ensure that you make your payments on time. Lenders view you as an irresponsible borrower when you miss repaying your credit.

• Outstanding Debt

Outstanding debt has a very negative effect on your credit report. Make sure that you immediately clear outstanding debt. Records of unpaid debt can heavily influence your score for the worse. Make sure that you repay big and small payments at the earliest.

• Not Paying More than the Minimum Amount Due

If you continue to only pay the minimum amount due on your principal each month, then your debt trap increases. It also leads to an increase in compounding interest. Therefore, it is essential to pay your credit card bills on time and in full.

• Applying for Multiple Credit Products

Each time you apply for a credit product, the lender pulls out your credit report. This action is also known as a hard inquiry. When you send out multiple applications, there are multiple hard enquiries recorded against your account. Not only will this affect your score, but also exhibit your hunger for credit. Take some time off before you apply for the next credit product, especially if your application is rejected at first.

• Errors in the CIBIL Report:

Errors in the CIBIL report are a common occurrence. They can range from incorrect personal information to wrong balance inputs. These errors have a direct effect on your credit score and you must watch out for any discrepancies. Keep a track of your credit history and be quick to rectify errors.