Five credit mistakes you should never make

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Most people in the world are looking to improve their personal finances, and a key component of achieving this is to form good credit habits. Your credit habits will determine the type of jobs you attract, the interest rates you are offered on loans, and the credit cards that you qualify for – amongst others.

Your credit score is one of the most important grades you will possess in life, so making sure that your score is healthy will undoubtedly benefit you in both the short and long term.

Paying your bills late

Your payment history is a critical factor in determining your credit score and gives lenders insight into how responsible you are with your finances. This also tells them if you can support your finances with your current credit structure.

While you may not think that a single late payment will affect your credit score, it has the potential to drop your score. This drop in score is amplified when multiple payments are missed regularly – something that attracts late-payment penalties.

Try setting automated payments or reminders to pay your debts as they become due to avoid your information being submitted to credit bureaus and getting flagged.

Making minimum payments

The primary purpose of making a minimum credit card payment is to prevent the lender from reporting a late payment. The remaining balance, however, does attract exorbitant interest that can cause your balance to balloon exponentially.

A great idea is to make consistent payments that are higher than the minimum to drive the balance lower without attracting penalties. Consider using tax rebates, annual bonuses and/or savings to pay into your credit card and lower your balance before it gets out of hand and unmanageable.

Maxing out your credit cards

Maxing out your credit cards will bring with it a high credit utilization ratio – something that will lower your credit score. This will dissuade future lenders and credit card operators from wanting to offer you credit as you may be viewed as high risk.

Future lenders could view your reliance on credit as being financially irresponsible and that you could possibly struggle to pay off your future debt as you accumulate more of it. Maxing out your credit cards also comes with penalties on your Annual Percentage Rate (APRs) that can cause your balance to attract interest much quicker – deepening your debt and making it harder to pay off.

Applying for new credit

Upon each application for a line of credit, the lender will perform a detailed credit check on your profile – something that drops your credit score on each occasion. If you are fond of applying for credit regularly, the accumulation of these points losses can be detrimental to your overall score.

If you are shopping around for a line of credit, it's best to get all your applications done within a 30-day window period, as the credit scoring companies will consider all of those as a single inquiry.

Closing older credit cards prematurely

While the feeling of paying off and closing a credit card is a rewarding one, you need to consider that the average credit card age impacts your credit score. A longer credit history gives lenders more insight into how responsible you are with money.

While you may think that you don't want the hassle of paying monthly or annual fees on an older credit card with no balance, it may be a small price to pay when you need to apply for credit in the future as you will have a much stronger credit rating even though you don't use that credit card.

Final thoughts

We hope that our' five credit mistakes to avoid' has given you the confidence to keep your credit score at healthy levels and ensure that future lenders are keen to approve your applications for credit.

Even though your credit score may not be ideal at the moment, it can be improved over time – with proper advice and direction.

At 4 Point Financial, our experts will provide valuable insight and guidance about effectively managing your finances. Make sure to get in touch and experience the 4-Point Financial difference while ensuring that your financial portfolio gets the attention that it deserves.
