



*CAD Credit & Debt Consulting*

# Credit Scores

## Small Changes = Big Increases

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### OVERVIEW:

About thirty (30%) per cent of a credit score is determined by the AMOUNTS OWED on “revolving accounts” – usually credit cards. Most commentators just tell consumers to keep balances low, but there is more to it than that and simple changes that make big differences.

The closer the amount owed gets to the maximum limit available on an account the more points are taken OFF the credit score. This paper discusses how much this may hurt a score, how to compute and estimate any point loss, and gives a number of legitimate methods that can be used to gain back points lost due to this aspect of a credit score. Some of these methods are ‘creative’ or not widely known, but most consumers can do these.

As a credit repair company, CAD Credit & Debt Consulting has seen many clients use the information presented here to obtain solid increases in their credit score. The last page contains a link that can be used to get a [free excel file](#) to perform the calculations discussed to help apply this material to individual situations.

*CAD Credit & Debt Consulting*

143 Cadycentre - 310  
Northville, MI 48167

Voice & FAX: 888 722-0405

Email: [Info@cadcredit.net](mailto:Info@cadcredit.net)

[www.cadcredit.net](http://www.cadcredit.net)

Want a fast way to get a big increase in your credit score? The concept discussed here affects a surprisingly large number of people over a wide range of credit scores. For those with average, below average and even poor credit scores, the opportunity for very substantial increases in score exists. Those with higher scores may still have additional points to gain. Most importantly, consumers have the most power and control over this area of credit scoring and can create the most immediate increases in their credit score.

The concept known as “utilization” makes up about thirty per cent of your credit score. If utilization percentage is high, your score can be over **100 points lower** than the score the other information on your credit report would produce. Below is first a discussion of the effect of utilization on your score. Then an explanation as to how you can compute your utilization and, finally, a number of action steps – some little known and ‘creative’ - you can take to improve this area of your credit so that you can increase your credit score.

CAUTION: the exact details of credit scoring have not been disclosed to the public. Some generalities have been released by the credit score creator, Fair Isaac Corporation (FICO). In 2010, FICO released for the first time specific information regarding ‘*damage points*’. They revealed that a “maxed-out” credit card will drop a 680 score by 10 to 30 points and a 780 score would drop by 25 to 45 points. While these are significant drops, we have seen more than twice that point loss - possibly due to multiple maxed out cards each having similar ‘*damage points*’ subtracted. Studies have been done by other organizations, and seem to be closer to our experience than the FICO released information. These studies and our experience are relied on in this paper; but there is still no absolute certainty that the information contained here is technically correct.

Also, individual situations vary so the same action on one credit report may produce a somewhat different result than that same action would produce on another credit report. Any references to credit scores or points must be understood to be approximations. **Our approximations appear in Red to remind you of this.**

Your FICO will not necessarily be harmed by large outstanding balances. What is more important is **how many** accounts have balances and **what percentage** of the total credit line is being used on credit cards and other "revolving accounts". In an attempt to improve their credit scores, people sometimes make the mistake of closing

down credit card accounts where they have small balances and consolidating their debt under one credit card. This can actually worsen your score since the percentage of your lines of credit that is still owed would actually go up.

Higher credit scores result in substantial savings on interest rates for credit cards, auto loans, mortgages and even auto and home owners insurance. Some time spent implementing the tips outlined here can literally save hundreds of dollars a month or thousands of dollars per year.

### *WHAT IS UTILIZATION*

Utilization is a measurement of the amount of credit you are using compared to the amount of credit you have available. It is computed only on your *revolving* accounts – these are primarily credit cards but also include accounts where the payment and balance may change month to month. Look for REVOLVING or REV in the account item on your credit report to identify them. A home equity line of credit (HELOC) would also be included in utilization.

NOT included are *installment* accounts – usually mortgages and car loans. These accounts have fixed monthly payments and steady monthly decreases in the balance over a specific period of time.

### *HOW BIG IS THE EFFECT ON A SCORE*

As mentioned above, the effect of utilization can be in excess of 100 points. The first generality is that changes in score points are generally greater for higher scores and somewhat less for lower scores. Thus, an otherwise 760 score might suffer a bit over a 100 point decline with a high utilization while an otherwise 660 score might only see a 60 point decline with the same high utilization. Regardless of the other factors on a credit report, utilization is going to produce a significant increase or decrease in the final score.

We have worked with individuals who have large amounts of available cash and can make big changes in utilization by paying down account balances immediately. When paid down, these people have experienced 60, 80 or 100 plus point increases in their credit score in a matter of several weeks.

With this range of points involved, utilization is one of the best opportunities to make a quick change in a positive way to a person's credit score.

As you consider the effect of utilization on your credit score, it is helpful to use several ranges of utilization to gain an understanding.

#### Utilization under 10% -

Likely, No effect on score

Studies of credit score super achievers – those with scores above 800 – show that consumers at this excellent score level generally have balances that are less than 10% of the available limit. One study averaged the balances at 7%. As the *number* of accounts is also considered, having some zero balance accounts is helpful. The effect in this range is likely to make little to no difference.

Utilization under 30 % -

10 to 25 points - *Two or more cards – higher*

If revolving balances are under 30%, there is likely a small effect (loss of points) to your credit score. Depending on your score, these several points may or may not make a difference in being approved or what interest rate is offered.

Utilization between 30% and 50% - 20 to 35 points - *Two or more cards - higher*

Once utilization goes over 30%, the loss of points starts to matter. It seems the loss of points is on a sliding scale so the closer you get to the 50% mark the more points may be subtracted. Depending on the score you have, utilization in this range is probably resulting in a higher interest rate for a loan, but at lower scores can also be the difference between approval or denial.

Utilization over 50% -

30 to 45 points - *Two or more cards – higher*

Once utilization goes over 50%, significant point loss occurs. Again, it's a sliding scale so the closer utilization gets to 100% the larger the loss of points. It's almost certain that in this range a higher interest rate will be offered on a loan and the chances that utilization alone will result in loan denial becomes a very real consideration.

To illustrate our opinion that several high utilization accounts might take over 100 points from a credit score, consider a credit report with five (5) REVOLVING accounts, where two (2) have NO outstanding balance, two (2) have balances between 30% and 50%, and one (1) is over 50%. Just using the lowest points in the range, each of the '30% to 50%' accounts would have 20 'damage points' for a total of forty (40), and the 'over 50%' accounts would have thirty (30) 'damage points'. That's a total of seventy (70) points subtracted from the credit score. Again, the exact scoring formula is not known, so results will vary.

## ***HOW UTILIZATION IS CALCULATED***

Utilization is calculated by dividing the balance reported for the account on your credit report by the limit available.

A problem that sometimes arises is that some accounts don't report a limit. When this is the case, utilization is calculated by dividing the balance reported by the highest reported balance ever reported, which is usually shown on the report.

There seems to be a difference in how this is actually applied between the various credit reporting agencies. Some add all accounts together and do one computation while others do individual account calculations and weight the results. Never the less, since the number of accounts with balances is important, always having some zero (0) balance accounts helps.

## ACTIONS TO ADD POINTS TO CREDIT SCORE

### **TIP 0** – *Don't Skip Tip 7.*

If you find your solution earlier, be sure to follow Tip 7 at the end.

### **TIP 1** – *Obviously, Is To Pay Down The Balances.*

Simple, if you have the money available to do it. But it's not hopeless if you don't. If cash is not immediately available to pay down balances consider:

- Life Insurance cash value loans or 401K – they don't report on credit reports. Be sure to put a realistic plan to repay these in place **And** check with your loan officer if you are currently applying for a loan regarding any other considerations.
- Tax tricks – EIC and exemptions. If you get large tax refunds each year consider modifying your withholdings and take the increase in pay and send it in addition to your regular account payment. If you qualify for the Earned Income Credit check with your employer about making payroll changes to have some of this added to each paycheck and then use the increase to pay down balances.
- Budgeting changes to SAVE MONEY and use those savings to pay down balances. [www.mint.com](http://www.mint.com) is a great site to help control your cash and automates a lot of budgeting tasks.
- Consider refinancing same or all of the REVOLVING balances through a Peer to Peer lending site such as [www.prosper.com](http://www.prosper.com), [www.zopa.com](http://www.zopa.com) and [www.virginmoneyus.com](http://www.virginmoneyus.com) . If used properly you transform revolving balances into installment accounts, which takes them out of the Utilization calculation. Be cautious as you think about this as the monthly payment may increase. Be sure you don't charge the credit cards back up after paying the balances down. Plan to realistically succeed, so you don't create a worse financial problem than your lower score is causing.

Regarding interest rates, Peer to Peer loans are made similar to eBay or auction type web sites. So you may get better or worse interest rates than you are paying on your credit cards. You may be able to phone your credit card company and have your current rate reduced, so consider that option. Also, these sites do generally report to the credit reporting agencies so the additional monthly payment (offset by the reduced credit card payment) will affect loan applications.

- Personal Family/Friends loans. Not ideal and you want to be sure you can repay those closest to you.

### **TIP 2** – *Have The Account Limit Raised*

Increasing the LIMIT on the account will decrease the per cent of utilization on the existing loan balance. So call your credit card company and ask for a higher limit. Ask for more than you want so there's room to negotiate. This works for a surprising number of people, and it only costs ten minutes of your time.

### ***TIP 3 – Spread A High Balance Over Other Cards***

Especially if you primarily use one card, you may find that some of your cards have little to no balance while just one or two have very high balances. If this is the case, try to even them out at the lowest average percent. You can do quickly with cash advances, but there are usually fees on these. Better to start using the other low balance cards, even on things you usually pay cash for, and make additional payments to the card(s) with the high balances. You can send multiple payments per month; you do not have to wait for the statement and due date.

### ***TIP 4 – Open New Account(s)***

Adding one or more new REVOLVING accounts increases your over all limit and reduces your utilization per cent. We have affiliations with companies who have \$5,000 and \$10,000 limit revolving accounts that consumers with most any credit history can qualify. Contact us if this is of interest to you.

The several points you might lose by opening a new account are likely to be more than made up by the improvement in utilization if it is high. So wherever you might get a healthy new account would be worth following up on.

### ***TIP 5 – Home Equity Loan***

A high balance home equity loan can cause a big drop to your credit score. If it is listed as a REVOLVING account it is likely included in the utilization calculations. Consider refinancing the balance to a fixed second mortgage to remove the loan from your utilization. Just phoning to ask for this change may provide you the option to make this change with the existing lender.

### ***TIP 6 – Some Part Of Each Of The Above***

Often people can not “succeed” at making any of the changes outlined above completely. However, they may be able to implement some changes in each of several areas. So if paying balances down with cash they have available brings them below 50% utilization; they can then add a new account and when the two actions are combined find that they have a combined result that brings them below 30% utilization and a very respectable increase in credit score.

### ***TIP 7 – Dispute Accounts with the Credit Reporting Agencies***

Just because you get the percentage reduced with your credit card company does not mean they have reported the lowered balance or increased limit to the credit bureaus. The quickest way to make that happen is to go on line and dispute the

balance, limit or whatever is appropriate to what you have done with each of the three (3) major credit reporting agencies – Experian, Equifax and Transunion.

## *CONCLUSION*

Utilization, the per cent of available revolving credit that is actually a current outstanding balance, has a big and usually negative impact on your credit score. By paying down existing balances, increasing the reported limits on accounts, opening new revolving accounts or transferring some of your debt from revolving into installment debt, you can increase your credit score and take advantage of the benefits of lower interest and insurance rates.

This report outlines all the information we believe affects utilization and discuss with our clients. We invite you to research the information yourself and certainly believe a large per cent of readers can use one or more of these ideas to help improve their score. Still, 70% of the credit scoring formula is not discussed here so you have lots of additional opportunities to increase your credit score. If we can be of help with any aspect of credit improvement, don't hesitate to contact us.

### **FREE OFFER**

To get a free excel file that computes Utilization and shows the pay down needed for each of your accounts

Click or Go To:

[www.cadcredit.net/SmallChangesBigIncreases.aspx](http://www.cadcredit.net/SmallChangesBigIncreases.aspx)

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143 Cadycentre - 310  
Northville, MI 48167

Voice & FAX: 888 722-0405

Email: [Info@cadcredit.net](mailto:Info@cadcredit.net)

[www.cadcredit.net](http://www.cadcredit.net)