

## **How Amounts Owed Impact Your Credit Score**

After your payment history, the second most heavily weighed factor when determining your credit score is the amount you owe on various accounts. The more money you owe to creditors and the higher your outstanding balances on loans and credit cards, the lower your credit score will be at that point in time.

However, there are instances in which high balances will not have a large impact on your score. If you have extensive history in paying off these accounts on time and consistently, then the amount will matter less. This is especially true with mortgages, student loans and other long-term debt.

### **Managing the amount you owe on credit cards:**

The ideal amount to owe on your credit cards is zero, but that's not always possible to maintain. What is possible, however, is to share balances across multiple cards.

For example, if you have two cards with a \$10,000 credit limit, and one is maxed out, and one has no balance, it would be in your favor to transfer half the balance to the empty card. This will move your debt around so your proportions of amount-owed to credit-limit is as low as possible for every card – an important factor when calculating your “amounts owed.”

Often, the reason balances aren't shared in this way is because one card has a much better interest rate than the other. When this is the case, use your judgment to figure out if it is worth switching your balance around. For example, the difference between a score of 650 and 655 probably won't change the interest rate you would be offered on a mortgage. But, if your score is around 698 and you can get it up to 703, then you may save thousands of dollars over the course of the loan because of the difference in your home's interest rate.

Consider carefully the benefits of an improved credit score when deciding whether or not to transfer balances. And remember, although the best amount to owe on credit cards is zero, it is important to use your cards at least once every 2-3 months to keep the rating status active. If a card becomes inactive, the account will not be considered in the formula that calculates the score.

If you are hesitant to use credit cards, try using them for gas or groceries, and pay the balance due before the statement date. This way it will show activity, and also reflect a zero balance. Both are great for your credit score. Plus, if you pay off your balance you will not have to pay interest on your purchase.

Stay tuned next week for the next chapter in our “Understanding Your Credit Score” series, when we'll discuss the importance of the length of your credit history. If you have any questions about your credit score, don't hesitate to ask! You can send us a secure email through PC Access, contact us through facebook or twitter, call us at 800-232-8101 or stop in your local branch.