

How Payment History Affects Your Credit Score

Payment history on credit accounts is the single biggest factor that contributes to your credit scores. In fact, 35% of credit scoring inputs are based on your payment histories.

Payment history measures your on-time payments for consistency. Specifically what the credit bureaus are looking for is that your account status remains in "current" status for each account. As long as your account remains in that current status, it will continue to report as a positive account.

Closing a positive account will be reflected on your credit bureau. The positive payment history will remain on your credit report for ten years, providing a boost to your credit scores. Of course, that benefit will fade over the years until the account finally drops off your credit report.

Conversely, a missed payment will plague your credit report for seven years. Missing one payment can cause your scores to drop immediately, as it signals financial distress. That negative mark will continue to reflect negatively for the next seven years, although the significance will fade over time.

One missed payment, if corrected, does not necessarily ruin your otherwise pristine credit. While your score will be lower, you are not penalized quite as severely as in the past. Fair Isaac, the maker of the FICO credit scoring formulas, made that change as a part of its FICO 08 changes that were implemented in 2009.

While a thirty day delinquency is relatively minor by itself, multiple delinquencies signal a more desperate financial situation that is reflected in your rapidly dropping credit score. The more severe a delinquency, the more your credit scores will suffer.

For example, a delinquency of 180 days is considered quite severe, and will greatly impact your score. If any of your accounts are 180 days past due, creditors deem it as a charge-off and an uncollectable bad debt. "Charge-off" means that once a bill has gone unpaid for 180 days, federal regulations require that the creditor no longer count the money you owe as an asset. They write off the debt so it's no longer on their balance sheet. The bill is still owed and collections continue, but the debt is now referred to as "charged off."

If you are dealing with delinquencies, try to improve your scores by restoring late accounts to a current status. This is the single greatest impact that you can make to improve your damaged credit.

How Long Do Missed Payments Affect Me?

Missed payments have a negative impact for seven years. That being said, they tend to affect you less over time. Consider the way a bruise or cut may heal. It looks worse immediately after

it occurs, and is clearly visible for several days. It then begins to slowly fade. After a couple of weeks, it disappears completely.

Missed payments work the same way. Your score will still be impacted by missed payments for a full seven years. However, that impact is less substantial as the date of the missed payments gets further in the past.

The credit bureaus will delete missed payments from your report after seven years have passed. If you brought one of these delinquent accounts current, once the missed payment drops off your report, it will revert to a positive status. Seven years also marks the time it takes for the credit bureaus to delete charged-off accounts and accounts you have closed.

Important facts to remember: Payment history is the single biggest factor in determining your credit scores. Taking steps to prevent or correct damage can be crucial to maintaining or rebuilding your credit. Simple tasks such as setting up reminders on an electronic calendar, using recurring bill payments, or getting email alerts can help you not only avoid late fees, but also keep your credit score as high as possible.

Lastly, if you are in debt and having trouble paying your bills on time, talk to your creditors. They may be able to help you devise a plan that will minimize the impact on your credit score.

Check back next week when we delve into another factor that makes up your credit score: Amounts owed on your accounts.

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