Common Reasons For Low Credit Score

Delayed repayments: Many people do not realize that even one or two delayed credit card payments can affect your credit score and cause it to drop. The more the number of delayed payments, the greater negative impact on credit history and credit score.

Missed payments: Sometimes due to an unforeseen emergency, you may not be in a position to make your payments. For example, you might have unexpected medical expenses for a hospital stay, or you might lose your job, making it difficult for you to fulfill all your loan obligations. If you miss any payments, it will be recorded in your credit history and lead to a drop in your score.

Lack of credit history: If you have not borrowed for a loan or had a credit card account, you will not have much of a credit history. This too can lead to a low credit score.

Administrative error: Occasionally, there may be an administrative error that results in wrong information being recorded on your credit report. Sometimes, this might be the result of fraudulent activity as well. For no fault of yours, these errors could lead to a lower credit score, signaling to lenders that you have bad credit.

Prevailing Errors in your CIBIL Report

- Errors in your CIBIL report, such as an incorrect personal or account details, duplicate accounts, incorrect loan balance, error in outstanding balance, errors in reported active loans/credit, etc. may adversely affect your CIBIL score.
- These may be errors made by a Bank or NBFCs or a case of fraudulent usage such as identity theft
- Ideally, you should regularly check your credit report and raise a CIBIL dispute to rectify errors, if any, at the earliest

Delayed/Non-payment of Credit Dues

- Your payment history is one of the key factors that affect your CIBIL score. If you have repeatedly delayed or missed your EMI/credit card payments in the past, your score will decrease drastically
- If your credit report displays DPD (Days Past Due) with numbers that means you have defaulted on payments that shall lead to fall in your credit score
- Unpaid dues of small amounts for longer duration lowers your CIBIL score drastically Simultaneously Multiple Credit Applications
- Submitting multiple applications for new loans and credit cards with several lenders within a short time results in an increase in the number of hard enquiries that eventually leads to decreased credit score
- All of these hard enquiries get recorded on your CIBIL report and depicts your credit hungry behavior which is potentially at a higher risk of default. As a result, your CIBIL score is likely to diminish
- Simple rejection of your credit application (loan or credit card) also decreases your CIBIL score significantly

Maintaining High Credit Utilization Ratio (CUR)

- Credit Utilization Ratio (CUR) is the percentage of the total credit utilized to the total available credit limit across all credit products. To avail lending benefits and for quick loan approvals, you should maintain a CUR of 30% of less. Like you have a monthly credit limit of Rs. 1,00,000, then your monthly utilization should be of not more than Rs. 30,000.
- A high credit utilization ratio (90-100%) or frequently maxing out credit cards indicate a higher dependence on credit and a potentially high repayment burden that eventually shall lead to loan or credit application denial by most of the lenders. With a regular high credit utilization ratio, you are considered to be at high risk of defaulting which shall further lower your CIBIL score

Improper Credit Mix

- If you have managed a variety of credit products, like Credit Cards, Home Loans, Personal Loans, prudently in the past, it increases your creditworthiness as it displays your ability to handle different kinds of credit responsibly
- If you don’t have a healthy mix of credit products (Unsecured or Secured loans), may lower your CIBIL Score slightly, but the impact is unlikely to be significant.
- Availing more of secured loans rather than unsecured may help in building your credit score gradually

In general, it is advisable to have a credit score of 750 or above to be in good credit standing with banks and other lenders. Anything under 750 is viewed negatively by lenders who are reluctant to approve your loan. It is important to improve your score to at least 750 so that your loan application is not automatically rejected during the initial application process.