



Why Do You Have a Mediocre Credit Score When You Have No Debt? 5 Things to Consider

Description

Contrary to what you might think, “debt” isn’t the only factor that brings a credit score down. While debt is certainly a major part of your score, you can be debt-free with an excellent payment history, yet still have a credit score that’s less than satisfactory.

So why is your [credit score](#) mediocre when you’re debt-free? Let’s look at five reasons your score might be lower than you expected.

1. Your oldest credit card is still too young

[Credit bureaus](#) favour borrowers who have a long credit history. In fact, “credit history,” or the average age of your active credit lines, makes up a whopping 15% of your credit score. If your oldest account is fairly young, your score might reflect this.

If this is the case, only time will help your score. Keep your oldest credit card open, even if the card is no longer your preferred method of payment. And be wary of opening too many credit cards in a short period of time, as you might dilute the “average age” of your accounts.

2. You use too much credit

Even if you’re not in debt, you could damage your credit score by overburdening your [credit limits](#).

Credit bureaus dedicate a huge chunk of your score to [credit utilization](#). Basically, credit utilization measures how much credit you’re using versus how much total credit you have across all your account. If you have three credit cards, for instance, each with \$5,000 as credit limits, then your total credit would be \$15,000. Max out just one credit card, then, and you would be using over 33% of your credit.

In general, it’s best to keep your credit utilization below 30%. If your credit score is mediocre, however,

I would recommend using a maximum of 10%. The less credit you're using, the less risky you appear to credit bureaus, which gives your credit score a boost.

3. You've had your credit checked too many times

Every time you apply for a new credit card, the [card provider](#) will run a hard inquiry on your credit score. These "hard pulls" make up 10% of your score. If you have too many inquiries in a short period of time, you could knock your score by a few points.

But it's not just credit card providers who run hard inquiries. Any lender can, including loan companies and mortgage providers. Even some landlords might do a hard credit inquiry, though most will probably just do a soft pull.

4. You have only one type of credit

Another common culprit, *credit diversity* can often turn an excellent credit score into just a mediocre one.

Credit diversity shows lenders how many different types of credit you're using. Credit cards are one type of credit, but so are personal loans, lines of credit, and mortgages. If you have five credit cards, you might have an enormous amount of credit available to you. But if you *only* have five credit cards, you still only have one type of debt, which your mediocre credit score could reflect.

5. Your credit report has an error

If none of the above resonates with you, if you're sure you're doing everything to bring your score up, then you might have an error on your credit report.

The most pernicious error is identity theft. That is, someone is borrowing money irresponsibly in your name. Alternatively, someone could have the same name as you, in which case your credit activities and theirs have become mixed (trust me—it happens).

Either way, if you suspect something more sinister, get a copy of your credit report, then contact your credit card provider with any errors.

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