Personal Loans Will Affect Credit Scores More - Consumer Finance

Every five years or so, credit reporting agencies modify how a consumer's credit score is calculated. The latest revision will analyze personal unsecured loans and how they are being used by consumers. Over the past few years, personal loans have been growing faster than any other consumer debt category. The problem is that many consumers have been using personal loans as a way to transfer or pay off existing credit card debt, thus shifting credit debt to an unsecured loan status. The revised calculation is expected to influence roughly 40 million American consumers, affecting those with both good and bad credit scores. Other dynamics that will hinder credit scores due to the revised calculation include rising debt levels and more recent late payments.

Other changes were made over a year ago that actually helped lift some consumer credit scores. Bank account balances and utility payments were added as a factor in calculating scores, affecting nearly every consumer.

In light of the recent revisions, some believe that it might be a good idea to pay down existing personal loan balances in order to avoid the risk of any negative reporting to a consumer's credit score.

Sources: Federal Trade Commission; Consumer Information

© PlanRock Investments, LLC. The content above is available for use only by authorized subscribers, clients and where permissible as such. This content is not authorized for resale. Past performance does not guarantee future results. The sources we use are believed to be reliable, but their accuracy is not guaranteed.