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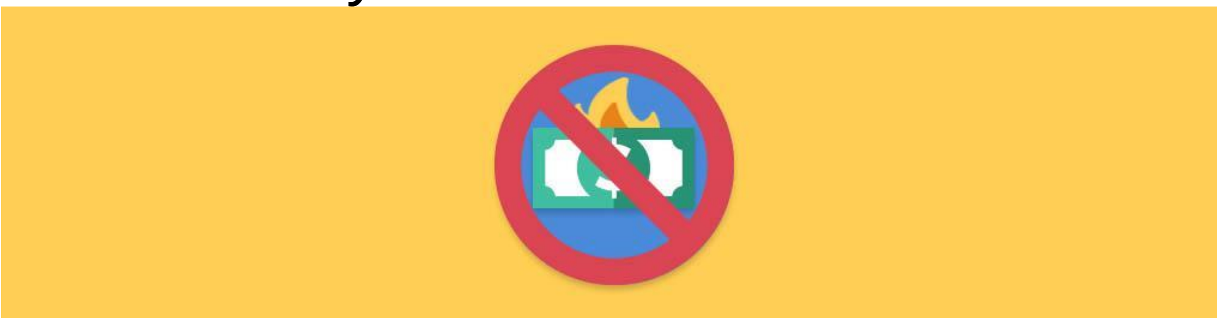
7 Bad Money Habits That Lead to Bad Credit



If you want a healthy credit score, you need to save more, spend less, and be patient.

Having bad credit can sometimes feel like a curse, like it's something entirely beyond your control, something that's utterly impossible to fix.

But even though it can feel that way. We all know that's not the case.

While there are certainly many instances where bad luck or misfortune—incidents that are entirely beyond your control—can contribute to financial woes and send your credit score down the tubes, there are just as many times where bad money habits are the real culprit.

Even when it comes to instances of bad luck, there are good money practices that can leave you much better prepared to deal with them. Having a real, sizable emergency fund, for instance, means that you don't have to turn to personal loans in a time of financial need.

If you want to fix your bad credit, you need to fix the bad money habits that cause it. Here are seven bad credit habits to fix today!

1. Making only the minimum payment on your credit card.

While paying your bills on time represents a big portion of your FICO credit score, another big factor in your credit score is your amounts owed, and your credit utilization plays a big part in that," says Stephen Slaybaugh, a consumer analyst with DealNews (@DealNews).

"If you're only making the minimum payment, your credit utilization will be higher and it will take longer to pay off your debt. Try to pay as much of your balance off as possible each month."
This is great advice, and it bears repeating. Credit experts generally say that you should keep your credit utilization ratio at 30 percent of your total credit limit or below. Paying off your entire balance month to month means that you are maintaining a ratio of zero percent.

Carrying a balance from month to month on your card also means that you are paying interest on that balance, which is cutting in your budget and costing you more money in the long run.
Even if you can't pay off your entire balance every month, avoid paying only the minimum.

2. Not having an emergency fund.

Carla Dearing is the CEO of Sum180 (@mysum180), an online financial wellness service. She says that "The single worst money mistake you can make is to fail to maintain a cash cushion for emergencies."

"Eventually, an event like a job layoff or a medical emergency will happen to most of us. Without an emergency fund, this can trigger debt that gradually spirals out of control. Give yourself the security that comes from knowing unexpected expenses will not derail you."

Being saddled with debt like that is going to be very bad for your credit score. Here are two steps that Dearing suggests you take to build up an emergency fund:

- "Increase your monthly savings and deposit as much of that as possible into an easily accessible savings account until it reaches about six months' worth of expenses."
- "After that, build up another 18-24 months of cushion to weather more serious emergencies."

Unsure where you can find money to save? Dearing has a wonderful suggestion for that, too:

"If you're not sure where or how to cut back on expenses in order to increase your savings, try this exercise: take a "No Spend Month." Eliminate all non-essential spending for a month. The simple act of sorting your expenses into "wants" vs. "needs" for one month can be eye-opening and liberating."

"You'll find it easier to sacrifice luxuries like expensive dinners or a vacation when you understand what you stand to gain: security and peace of mind."Krista Neeley, Managing Vice President of Appreciation Financial (AppreciationFin), a retirement services company, has some great insight into why some people have difficulty with saving.

"Most savings habits are difficult for people because they perceive it as a loss, rather than a replacement. We have too many of us who seek instant gratification rather than long-term longevity benefits," she says.

"When we think of savings as someone or something taking away from us rather than a gift we are giving to ourselves, it can make it harder to save. We have so many bills to pay or financial responsibilities to meet, sometimes we forget to get ourselves onto that list!"

3. Being Too Casual About Saving.

If you don't have an emergency fund or retirement savings, it means that you aren't putting any thought towards saving money. You're just living your life, swiping your card, and hoping that things will take care of themselves.

But saving money isn't something that just happens. It requires making a plan and then sticking to it—which is a lot harder than it sounds. It definitely won't "take care of itself."

"Saving is a habit, and the same way it took us multiple attempts over time to learn how to correctly, then effectively, then quickly tie our shoes, the same principles apply when seeking how to improve or build habits of financial abundance and stability," says Neeley.

“Starting young means building a healthier relationship with money and a high expectation of the goals and life money can create should you choose to create it. Money can be one of the most empowering tools and one of the most frustrating, but it’s determined 100% by us! Saving for long-term goals while you are young is also vital when remembering interest and accounts build up over time which is only on your side before age 40. After that, long-term savings (like retirement) become increasingly expensive!”

In order to build up your savings, you need to be deliberate. You need to make a plan and then stick to it—which can be harder than it sounds.

With that in mind, here are some great savings tips from Ashley Feinstein Gerstley, money coach and founder of The Fiscal Femme (@TheFiscalFemme):

- “**Automate.** I love making our financial lives as easy as possible, and automating is a great way to do that. It also ensures that it will happen. When we set our savings up to transfer automatically we treat our saving like an expense. It’s not about what’s left over or what we’d like to save, it’s about paying ourselves first and making it a priority.”

- “**Separate.** It’s very hard to save money in a savings account that’s with the same bank as our checking account. We see it every time we check our balance and it just feels available to us to use. We end up transferring money over bit by bit to our checking and then there’s no money left in our savings. When we open up a separate savings account, the money feels less available to us. Out of sight and out of mind. We also can earn some interest. Online savings accounts get about 1 percent interest vs. our brick-and-mortar banks that give about 0.01 percent.”

Neeley has some spot-on advice as well:

“You can use a third-party app like Digit to help you save each month also. This is a great tool when saving for a trip or something fun that’s a few months out, you will surprise yourself with how much you can save in small increments.”

[Oh, and speaking of apps to help improve your financial life, why not check out our Finance App Directory? There, we review money apps for everyday needs like savings, budgeting, transferring money and more.]

“You can still go out to dinner and enjoy life, maybe just remind yourself that the $10 movie popcorn or $8 dessert when at dinner would feel better in your bank account instead of in your belly. Instead of giving into that $7 Starbucks run, take the cash and put it into savings for your future goals (maybe that’s a future Starbucks run).”

No matter how you decide to do it, you need to get serious about saving. Lacking an emergency fund is how you end up putting emergency expenses on your credit card or turning to bad credit loans and no credit check loans to get cash in a hurry.

And behavior like that is how you end up hurting your credit score in the long run.

4. Living Without a Budget.

Fixing this bad habit can fix a lot of other spending woes.

Going without a budget means that you aren't tracking your spending, and you're not making the hard choices on where to cut back. It means you're probably racking up too much credit card debt and making only your minimum payments.

Living without a budget means living without awareness of where your money is going. And your credit score is going to pay the price.

"It's important to have a budget and stick to it, says Slaybaugh. The best way to do that is to examine your spending habits. That means writing it all down."

He says that "the simplest way to get started is by using an app like Mint or Level, which connect to your bank account(s) to see what you make and what you spend. These apps can build budgets for you based on your existing spending patterns, and keep you on track by letting you know when you're going over budget and when bills are due."

Gerstley notes that the rising popularity of mobile payment makes it even easier for us to ignore our finances:

"We have a tendency to avoid paying attention to where our money is going, and technology has made this that much easier. We can hop in and out of Ubers without paying and we can buy things with a click of a button or swipe of a credit card."

"I have each and every one of my clients manually track their spending via an actual notebook or notes on their phone," she says.

"It's a new practice so it will take time to get the hang of it. It's important that we are kind with ourselves as we build the new habit. And the more we don't want to do this, the more we have to gain from doing it!"

5. Spending Outside of Your Means.

There are two main planks to the "out of control credit card spending" platform.

The first is using your cards to pay for emergency expenses because you lack a savings account. It's using credit cards to buy consumer goods that you want but can't you couldn't otherwise afford!

This doesn't mean that you can't afford to go out to a nice dinner once in awhile, or buy that new PS4, or paint those sweet jet flames on the side of your Honda Civic.

It just means that you can't do all of those things at the same time. And it means saving up the money to pay for them up front.

"If your spending is higher than your income, it's time to rethink things," says Slaybaugh. Look at your spending numbers and figure out where you could cut back." Do you need that pricey cable package? Could you skip a few nights out every month?"

"Sometimes even relatively small changes, like carrying your lunch or not picking up coffee on the way to work every day, can add up over the month to make your budget work. Keep tweaking your budget numbers until what you're spending is less than what you're making."

Another option is taking on a side gig. That way, you can earn extra money to pay for all that great stuff. (We'd be remiss if we didn't tell that at least some of that should go towards your savings.)

To learn more about picking the perfect side hustle, check out our list of 10 great side hustles that are perfect for quick cash.

5. Ignoring Your Credit Score.

Failing to pay attention to your credit score and then wondering why it's so low is like failing to pay attention to your dog and then wondering why it misbehaves.

And while your credit score won't eat your couch or poop in your shoes, ignoring it can have incredibly dire consequences for your life overall.

"Figure out where you stand with your credit score," says Gerstley. "The first step to increasing your credit score is to figure out where you stand. How will you get where you want to be if you don't even know where you're starting from?"

Here are her three tips for keeping on top of your score, as well as your larger credit history:

- "**Pull your credit report for free each year at AnnualCreditReport.com.** Your credit report is the source of information for your credit score. In the report, you should find all of your credit accounts, including credit cards and loans as well as your limits, balances and payment history."

- "**Review this information each year to make sure it's all correct.** The quickest way to increase your score is to remedy errors from your credit report. A delinquent loan on your report that isn't yours would be weighing your score down incorrectly. Having that removed will move you up immediately!"

- "**Your credit score can range from 350-850, 850 being perfect.** The most widely used credit score is the FICO score and many credit cards are now reporting that score on monthly statements. You can also pull your FICO score from MyFICO.com. For a fee, you can see a breakdown of your score along with action steps to improve it."

By federal law, the three major credit reporting agencies—Experian, TransUnion, and Equifax—all have to make one free copy of your credit report available to you per year. In order to really keep track of your finances—not to mention your identity—we recommend that you request one report every four months.

6. Skipping out on insurance.

Another way to deal with unforeseen expenses, especially medical costs and home or car repairs, is to have insurance cover the majority of the tab.

Even if insurance premiums mean that your budget is a little tighter than normal, it beats resorting to costly payday loans or title loans during an emergency.

When it comes to the benefits insurance coverage, Dearing is chock full of good advice:

“When we think about our taking care of our ‘finances,’ we often think of growing our savings, retirement or investment accounts. But the truth is, your money is so much more than your savings or your investments.”

“Protect your assets and your future from liability by getting property, casualty, and perhaps umbrella insurance coverage, as well as health insurance, disability, and other specialized coverage you may need to have due to your circumstances.”

Identity theft has become increasingly common recently, so you may want to consider this as well. For a small premium ($25-$60 per year) you can purchase credit monitoring and reimbursement for the costs associated with repairing your credit history if you become a victim.”

“If you are a homeowner, be sure to update your coverage yearly. Have you had an addition built onto your home in the past year? Did you completely renovate your kitchen or install a full-feature home theater? Reviewing and adjust your coverage to reflect the current value of your home will save you a lot of money in case the unexpected happens.

7. Not daring to hope.

No, wait. Here us out.

One of the worst things you can do when you’re financially struggling is to give up hope. That kind of mindset leads to self-destructive choices, which then make you feel even more hopeless.

If you have bad credit already, it’s going to take a while to pull your score up out of the gutter. But that doesn’t mean it’s impossible.

(Read more about this in our blog post: Want to Raise Your Credit Score by 50 Points? Here Are 4 Great Tips.)

Granted, it’s going to take some planning, some discipline, and a whole lot of patience. (A little luck doesn’t hurt, either.) But it is the farthest thing from impossible

On the other hand: giving up? That’ll guarantee your score stays bad. Heck, it will probably make it get even worse.

Dearing has some fantastic insight on this topic:

“Three out of four Americans live paycheck to paycheck, says Dearing. In this situation, it takes a leap of faith to imagine that a better financial situation for yourself and your family might be possible. But hope is an essential ingredient to building a better financial picture. You don’t have to know how to get there; that can come later. For now, just allow for the possibility of making things work. “

“Then, tune in. Instead of avoiding the things that stress you out – credit cards debts, student loans, etc. – confront them. If you need it, get help from a good financial planner. You may be surprised to discover that things aren’t as bad as you imagine.”

"Set aside time to deal with your money on a regular basis, so you can deal thoughtfully with questions that come up and address problems before they become crises. If dealing with money has been stressful for you in the past, creating a schedule to handle money questions regularly can defuse the anxiety. Eventually, it will just be another part of your routine."

Think about your finances the same you'd think about your health. If you don't take care of it every day, your finances will end up getting sick. Really, really sick.

"Our financial health and strength are just as important as our mental, emotional, and physical health and strength," says Neeley. "Taking time to better understand and empower yourself financially can be the backbone to creating the freedom, flexibility, and peace of mind your desire for your future. Having a strong, stable foundation for your finances is the easiest way to create a bright future in all other areas of your life."

Contributors

Carla Dearing is CEO of SUM180, an online financial wellness service designed to be simple and affordable. She is also CEO and Managing Director of IMC, a marketing services agency. Previously, Carla held senior executive positions with at the University of Louisville, Community Foundations of America and Investors Capital Services. Earlier, she worked at Morgan Stanley and American National Bank & Trust Company. She holds an MBA from The University of Chicago Booth School of Business and a BA from the University of Michigan, Phi Beta Kappa.

Ashley Feinstein Gerstley (@TheFiscalFemme) is a money coach and founder of the Fiscal Femme where she demystifies the world of personal finance and money in a fun and accessible way so her clients achieve their financial goals.

Krista Neeley is the proud mother of three amazing girls, passionate about finances and helping others, and is blissfully married to her sweetheart. She's been in financial services for 5 years and enjoys supporting people in achieving financial liberty. She enjoys traveling, photography, reading, and Disneyland trips during her free time.

Stephen Slaybaugh has been writing for such national and regional publications as The Village Voice, Paste, The Agit Reader, and The Big Takeover for 20 years, and has been covering consumer electronics and technology for DealNews since 2013. Stephen lives in New York, and is a native of Ohio.