

2 Account History vs. 10 Account History

By Patrick Ritchie

There are numerous variables when it comes to credit, but when it comes to the amount of history a credit report contains this is not an even playing field. A consumer with two accounts has a thin credit file. It is recommended to have at least 3 open and active (within the past 6 months) accounts that have been open for at least three years. Is this imperative? Not necessarily. It depends on what the consumer needs down the road. Does it make it easier to borrow money later? Yes, especially when purchasing a property using niche mortgage programs such as stated income, no documentation, zero down interest only, etc.

The person with only a 2 account history is at a serious disadvantage if something negative were to happen to their report. One 30 day late payment might knock the score down 50 points. Depending on how long the two existing accounts have been open, the damage from a late payment may be more or less severe. If the accounts were less than a year old the overall picture would be worse than if both accounts were over five years old or more. People with thin credit files need to pay extra attention to how they manage their payments and debts because there is little room for error. One slip-up could all of a sudden make them a sub-prime borrower in some circumstances.

The consumer who has 10 accounts open and active is in a position I would compare to a diversified stock portfolio. If something were to happen to one of the accounts you have such a mix that the others will keep the scores from going down too far. If you have ten stocks and one goes down, the other nine hopefully are good enough to keep the overall picture in good standing.

Brenda and Dawn are best friends. Both have accounts over 5 years old and have always paid their bills on time. And both have a score of 720. They take a long vacation in Maui and both forget to make a payment on their bills. So Brenda and Dawn both receive a 30 day late on their credit reports. Both women order their credit scores to see how much of a hit they took. Brenda's score after the 30 day late shows a respectable 690. Yet Dawn's score dropped further, to 630. Why the difference? Brenda has 8 accounts and Dawn has only 2 open and active accounts. So Brenda has more positive credit history to cushion the impact of the negative information. Dawn has less history and therefore takes a bigger drop to her score.

Multiple open accounts provide a greater layer of protection. It can also heal the wounds of a negative occurrence quicker.

There is nothing wrong with only having two open and active accounts. As long as nothing negative occurs. A late payment or a collection can really send the scores out of whack compared to the counterpart with ten open active accounts. Unfortunately these things happen when we least expect them and sometimes without our knowledge.

Patrick Ritchie is the author of "The Credit Road Map," a practical guide to navigating the world of credit. The book can be purchased at www.TheCreditRoadMap.com or on www.Amazon.com. Copyright © 2006 Success Road Map Press, reprinted with permission.