HOW STUDENT LOANS AFFECT YOUR CREDIT SCORE?

 student loans are considered an installment loan. An installment loan generally has a starting balance that’s repaid over time with a fixed number of payments. Home mortgages and auto loans typically fall in this category, too.

FICO, which issues the most popular credit score, treats installment loans differently than revolving debt like credit cards. With revolving credit, balances tend to go up and down over time. Borrowers access this credit whenever they need it. In the case of credit cards, that can mean any time you make a purchase.

All installment loans are treated the same way when calculating your FICO credit score. Student loans don’t have their own category or receive any special consideration. It also doesn’t matter if your student loans are federal or private. Both are treated the same.

WILL MORE STUDENT LOANS HURT YOUR CREDIT?

The short answer is no, because student loan balances generally don’t matter. According to FICO, 7% of consumers with more than $50,000 in student loan debt had excellent scores of over 800 points. While balances on credit cards impact your credit score, this isn’t the case for installment loans. Instead, it’s the payments that matter, according to FICO. But while your balances might not affect your credit score, they can affect your eligibility to take out other loans.

For example, mortgage lenders often look at your debt-to-income ratio. This compares how much total monthly debt payments you make vs. your income. If this ratio is too high, meaning you have too much debt relative to your income, you may be turned down for a loan.

IT’S ALL ABOUT PAYMENTS

For student loans, the biggest impact on your credit score will likely be related to payments. Particularly, if you’re making payments on time and in full.

In general, payment history accounts for 35% of your FICO score. This is the biggest piece of the pie. Just one late payment can cause your credit score to drop. While how much your credit score changes depends on many factors, this example from myFICO shows just how bad it can get.

In the example, Alex, who has an average credit score of 680, could lose 60-80 points from just one 30-day delinquency. Benecia, who has an excellent score of...
If you’re having trouble making payments, consider the various repayment options so you can keep paying on time.

### STUDENT LOANS COULD HELP YOUR CREDIT

While taking on debt typically isn’t a good strategy for improving your credit score, student loans may still help.

Part of the FICO calculation includes credit mix. This factor looks at the different types of loans and lines of credit you have. Having both installment loans (which include student loans) and revolving loans (like credit cards) on your credit report can be a good thing for your credit mix. While credit mix is a small factor (about 10% of your credit score), it can give you a little boost if both types show up on your credit report.

Keep in mind that once you pay off your student loans, there will still be an entry on your credit report. So there’s reason to avoid paying off your debt just to attempt to boost your credit score.

### DON’T SWEAT THE STUDENT DEBT

While we’ve covered a lot that can impact your credit score, you may be better off looking elsewhere if you want to increase your credit score.

FICO says that credit cards generally have a greater impact on your credit score than do student loans. “It’s important to note that while student loan debt can factor into the FICO Score, credit card debt has a larger influence,” FICO writes. “That’s because we’ve found that credit card indebtedness has a stronger statistical correlation with future borrower performance than installment loan indebtedness.”

### DON’T FORGET THESE THREE KEY TAKEAWAYS:

1. Student loans are treated the same as other types of loans for your credit score.
2. Having more student loan debt isn’t automatically bad for your credit score.
3. Focus on making student loan payments on time. It’s likely to have the biggest impact of any related to your student loans and credit score.

For more information, visit the Office for Student Money Management.

115 Neff Hall | Monday - Friday | 8 a.m. to 5 p.m. | wichita.edu/OSMM

*This article originally appeared on the Student Loan Hero blog.*