CIBIL Credit Digest

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Does having multiple credit cards affect your credit history?

Having multiple credit cards is not bad for your credit history. However, there are 3 factors pertaining to credit cards which may negatively affect your credit history:

- **Increasing Current Balance:** The outstanding balances on your credit cards have been steadily increasing over the past few months. This implies that you are unable to pay down your credit card bills completely and hence, may not be able to service additional debt.
- **High Utilization:** Your balances on these cards are very close to the "High Credit" reflected on your credit report. For example, if you have used Rs. 90,000 out of a credit limit of Rs. 1,00,000, this may be viewed negatively by a lender.
- **Credit Account Mix:** To be considered healthy, your credit history should contain a mix of a home loan, auto loan and a couple of credit cards. A high number of just credit cards may be viewed negatively by a loan provider. Why? Although a credit card offers easy access to finance, it's also by far the most expensive form of credit. Hence, more the number of credit cards with high utilization, larger are the payments that the borrower has to make. This may result in the inability to service additional debt.

Even though you have a relatively high number of cards, if you are not using them OR you use them & pay the bills on time, does it still affect your credit history?

Having many unused credit cards may be perceived positively by loan providers while evaluating a loan application. This is because low balances on credit cards implies that you are easily able to service your existing debt burden and hence are likely to be able to sustain increased monthly outflows.

Alternatively, given that your past credit behaviour helps a loan provider make an assessment of your future performance, using credit cards and paying your bills on time helps you build your credit history (reputational collateral).

However, it is important to remember that credit cards are only one of the factors considered. The loan provider will also keep in mind your monthly income and the size and regularity of other outflows from debt obligations such as home or auto loans before taking a decision on your loan application.

Is buying anything on EMI (even if it is at 0% finance cost) a better option than paying in full as far as credit history is concerned?

If you have never taken a loan, and pay for your purchases in full you will not have a credit history. However, as a rule of thumb, if you have loan related monthly outflows which are more than 50% of your monthly income, you are better off paying for your purchases in full if you can afford to. This is because loan providers may be reluctant to sanction a loan to someone who is already at a 50% EMI to income ratio because additional debt will make it difficult for the borrower to make ends meet. However, the lender does consider additional factors like the size of the applicant's income and number of dependents.

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