MN Catholic Credit Union

Financial Services to believe in.

Top 10 Credit Score Myths

Ignorance may be bliss, but not when it comes to your credit score. Lack of knowledge, or knowledge that's inaccurate, can damage your credit score, which will cost you money in higher interest rates or keep you from obtaining new credit when you need it. Arming yourself with some financial knowledge, and understanding what's true and what isn't when it comes to your credit score, will always pay off. Misinformation is a huge problem these days, and the more you arm yourself with accurate information, the better your financial health will be.

Myth #1: Closing a card after paying it off increases your score

FALSE: While it may feel good to kiss that card goodbye, it's not necessarily a smart move. Closing a credit card account will increase what's known as your debt-to-credit utilization ratio, which is the sum of all your outstanding credit card debt divided by the sum of all your credit card limits. A higher utilization is considered risky by credit score calculators and will ding your score — in the wrong direction. To earn the highest score, try to use no more than 10 percent of all your available credit.

Myth #2: Too many inquiries hurt my score

FALSE: Once upon a time, this statement was true, but that changed several years ago. The credit agencies recognize a shopping mind-set when they see one. If a batch of mortgage or car loan inquiries arrives within 30 days, it doesn't count at all.

Furthermore, there's no such thing as some fixed number of points associated with these inquiries. In reality, credit scores are designed to predict the likelihood that you'll fall seriously behind in repaying one of your creditors within the next two years. Some things have predictive value and some don't. Inquiries fall in the middle.

Myth #3: The older you are, the higher your score

FALSE: While it's true that the length of your credit history factors into your credit score, it doesn't take into account your age. The important thing to note is that the earlier in life you establish credit and, again, manage it responsibly by paying your bills on time and having low balances, the better for your score in the long run.

Myth #4: Checking my score will lower my score

FALSE: This is a huge misconception. The truth is, looking up your own score yourself is totally harmless. In fact, it's recommended that you check your scores yearly from each of the three major credit reporting agencies: Experian, Equifax and TransUnion. On the other hand, if a lender or credit card company checks your credit score, it's likely recorded as a "hard" inquiry and may work against you if you have multiple financial institutions checking your credit. Unlike the effect of shopping for a car as discussed in #2.

Myth #5: All credit reports are the same

FALSE: There are three major agencies: Equifax, Experian and TransUnion. Each one uses a different variation of the basic score model with very different ranges.

Myth #6: A divorce decree automatically severs joint accounts

FALSE: The judge may have rubber-stamped your plans to divide credit cards, car and house payments, but that carries absolutely no legal weight with the creditors themselves. So, many people find a year or two after the divorce that their credit report reflects their ex-spouse's missed payments. Unfortunately, at that point, they are helpless to erase the damage. Divorcing parties must contact the creditors and either close current accounts or ask to have the account be switched to an individual account. Creditors will do a credit check on you and if they deem you not financially stable enough to assume that loan, they won't agree to remove the other person.

Myth #7: Bad news comes off in 7 years

FALSE: Most of it does. Chapter 13 (reorganization of debt) disappears seven years from the filing date, but if you filed Chapter 7 bankruptcy (exoneration of all debt), the window is 10 years from the filing date.

Myth #8: You need to carry a credit card balance to have good scores

FALSE: You don't need to be in debt or pay a penny of interest to have good credit scores. Your credit reports and scores don't "know" whether you're carrying a balance or paying it off in full every month. That's because the balance reported to the credit bureaus typically is the balance from your last statement, not what was left over after you got that statement and paid the bill. So, you might as well pay in full and save yourself the interest.

Myth #9: Your age as well as your income determines your score

FALSE: Another common myth that is common is that a higher salary or the older your get, the more it bumps up credit score. Many people are unaware of the fact that the factors such as sex, income, age, and length of employment are *not* taken into account when the bureaus evaluate scores. Some are forms of discrimination and therefore should never be considered, but simply put: These factors do not help judge your credit worthiness.

Myth #10: Seeking Consumer Credit Counseling won’t hurt your credit.

FALSE: Don't get swayed by too good to be true offers made by the credit counseling companies. When you sign up with a credit counseling organization, one of the first things that will happen is your credit report will show a statement by each account for which you are seeking credit counseling. This statement will read **"payments made with the help of credit counseling".** This statement itself does not lower your score; however, it is looked on by the lending industry as a derogatory remark. As it implies that you are overwhelmed with debt and have mismanaged your finances. In addition, most of the credit counseling programs make your payments after the due date and this will cause late-payments getting reported to your credit file, which in turn ***will*** lower down your score.

If you have questions about your credit score call us at 651-484-0265 x1. We want to help.