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TOP 26 “Myth-Conceptions” of Credit

The media, the newspapers and, the Internet are full of incorrect information regarding Credit.

One of the things that We want to make available to your clients, family and friends, and everyone else whose financial lives that you touch, are certain facts about credit that will affect them and any financial decision that they have made or about to make.

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Myth #1: You share a credit score with your spouse.

Untrue! Your spouse and your credit report and credit scores are looked at individually. It is based on your social security number which is unique to you.

If you get an authorized user account (also known as "piggybacking") for your spouse, that will also show up on the report.

However, if none of your accounts are joint, and you don't have any authorized user accounts, there will be nothing that will affect your individual score.

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Myth #2: Your credit score only counts when you're looking to borrow money.

HUGE Myth! Your credit score, right now, is looked at for almost everything you do.

When you are applying for a job, auto insurance, homeowners insurance, life insurance, contractors bond among others they look at your credit score and they look at your credit history.

That’s why it’s so important to monitor your credit and clean it up if needed.

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Myth #3 Always pay your credit card balance in full and that will give you the best credit.

The problem is if you have no balance and you pay it in full every month you will have no payment history. You will want to leave a small balance every month (Ideal amount is 1%) to show that you can pay on time.

Don’t just pay off a balance and leave it as a zero balance account ongoing, because after six months it is typically looked at as an inactive account, (which can also be closed due to inactivity) which gives you really no major positive. Where if you use the account every few months, and leave a very small balance on it, then it will help you.

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Myth #4: My mortgage broker can use the credit report I obtained from Annual Credit Report.

This is a HUGE myth! 15% percent of your score is based on the average age of your accounts.

Fact, the OLDER the revolving account the BETTER! This does not mean run out and open several new accounts.

It is also a good idea to carry a small balance to keep the accounts open.

Myth #5: Too many accounts will hurt, therefore you must close accounts.

The “FREE” annual credit report is weighted differently than a lender’s credit report, and does not contain the same data that a lender report does.

From a lender’s perspective, there are reports where different factors weigh differently. A mortgage lender can and will customize the FICO/FCRA model based on what their requirements are. An automotive lender will get a automotive based score.

More weight is put on your auto credit than anything else in your score for the auto dealer. A credit card company is going to be more concerned with how timely you are with your credit card payments to decide if they will offer you credit or allow a credit limit increase on an existing line of credit.

Myth #6: A co-signer is not responsible.

In all actuality, a co-signer is as responsible as the signer on the account. In recent years, many mortgage applications were originated based on there being a co-signer, but in all actuality the co-signer was the primary borrower.

This will also affect the "co-signers" credit report due to the fact it will show up on their credit report as a joint account and if the person that they co-signed for fails to make payments it will have a very negative effect on their own credit score and late payments will appear on their report.

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Myth #7: If a judge in a divorce proceeding orders a spouse to pay a debt, it's no longer affected by credit.

Well the reality is that a judge’s orders do not negate an existing contract. Make sure to close all existing joint accounts and make sure that they are paid in full on time even if the other spouse was ordered to pay and you have to pay them to keep your credit intact.

Myth #8: Piggybacking does not work anymore.

It’s another myth. FICO '08 was supposed to change the way piggybacking rules were, which is based on authorized users, but they have since decided to change that (lawsuit).

Myth #9 Opting out will increase your credit score.

Opting out is where a consumer decides not to have their information sold for pre-screened offers, and it's not one of the factors that determine your score.

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Myth #10: Multiple auto loan inquiries increase will hurt your score for each one.

The truth is your score was affected with the older scoring methods, but now you can have multiple inquiries for an auto loan in a 30 day period and 45 days for mortgage loans which will only count for one inquiry because the Credit Bureaus realized that consumers often shop for a better rate.

Myth #11: It will take me seven years to improve my credit

Most negative items will remain for 7 years. There are however, exceptions. Often times collections are sold and “re-aged” and can stay on your report indefinitely.

This is a violation of the FCRA and a credit expert can help remove these violations. Your credit report has no history or memory of your score. What is on one day or even one month can completely disappear the next.

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Myth #12: A serious financial crisis like as a foreclosure or bankruptcy permanently hurts your credit score.

Foreclosures will remain on your credit report for 7 years, and bankruptcies 7 – 10 years depending on whether its a chapter 7 or 13. There are many methods to reestablish your credit and raise your score after a financial crisis.

Myth #13 FICO scores are locked in for six months, and that they change every six months.

That’s a huge myth because your credit score is based on the data available right there at the time that the credit score is pulled. The calculation is changed every time your credit score is pulled.

Myth #14 "I don't need to check my credit report if I pay my bills on time."

The reality is that 85% of credit files contain errors, and often are merged with someone with the same or similar name.

So you need to check you report often for errors as well as Identity Theft. Here is a link to a "60 Minutes" exposé of this problem. www.youtube.com/watch?v=Wi8A4A9Gzi0

Myth #15 "Checking my own credit report harms my credit standing."

There is a difference between a hard and soft inquiry. A hard inquiry is one that is done by a lender to evaluate whether or not they want to give you new credit.

That is the type of inquiry that will hurt your score; that will affect your score. But you can pull your own credit as often as you want, and it won't affect your score negatively at all.

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Myth #16 Consolidating into a low interest credit card will increase your score.

The interest rate of your cards have no effect on your score at all.

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Myth #17: Going over the balances on your credit limits are okay because the credit card company authorized the purchase.

That’s not true in any way because what will ultimately show on your report is the amount of credit that you used versus your credit limit and you will lose points for being over the limit.

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Myth #18 "As long as you pay off your credit card balances, your score will go up."

The reality is that if your card is maxed out, the way you are paying on it will just affect your payment history and most likely it will remain the same. As you pay down credit cards, the score will get better.

Myth #19 Types of Credit don't matter.

The credit scoring system gives weight to different types of credit providers better than others.

They give more points to American Express, Visa, and MasterCard by predominant national banks than they do to department stores, furniture stores, or gas cards. Sub-prime and “secured” Visa and Master Cards do not score as well either.

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Myth #20 Paying off an old collection or charge off will increase your credit score.

This is a huge myth, what will happen is as soon as you pay off an old collection or charge off, the new date of last activity becomes re-aged, because you have just changed the date of last activity and they get to report the derogatory information for another 7 years!

If you are concerned about your credit score, then paying off debts prior to obtaining any type of loan or mortgage will certainly hurt you greatly because it will be re-aged, and it will affect it as if it just happened yesterday. **The recent activity of any derogatory item has great affect on how it affects your overall credit score.**

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Myth #21 Using debit cards which will help to build your credit is another myth.

This is completely false. Debit cards are just like your checking account, they do not get reported to the credit reporting agencies an any way unless you overdraft the account and it gets “charged off” and reported as a collection.

You will probably also get reported to “Chex Systems” a company that most banks and some merchants use to report unpaid checks or over drafted accounts that have been closed.

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Myth #22 "The credit bureaus are government agencies."

Completely false. Credit bureaus are for profit companies. They collect data to sell to lenders and providers. They are governed by the Consumer Financial Protection Bureau.

Myth #23 "If I get one credit bureau to remove an item from my credit report, all the other bureaus will remove it automatically.

The bureaus are independent companies. They do not work with each other to remove items. Also, not all bureaus report the same information.

That is why it is important to review your file from all three major reporting bureaus Experian, Equifax and Trans Union.

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Myth #24 Credit repair is against the law.

Credit repair is legal. Federal Law protects it. The Federal Credit Reporting Act (FCRA) and Credit Repair Organizations Act (CROA) specifically states it's legal for you to repair your own credit, or hire someone to do it on your behalf.

Myth #25 Your salary makes a difference in your credit score is another myth.

The credit scoring models do not calculate salary as a factor in any way. They do not discriminate based on income or wages.

Myth #26 Adding a consumer statement to your credit file makes a difference.

It does not make a difference at all, and can actually harm you later. If you are in a dispute with the way an item is being reported you have the ability to under law to challenge it, and if you are able to get the item removed or corrected because it was inaccurate reporting, having that statement will reaffirm the fact that it was there in the first place.