Credit Score Myths and Facts

Courtesy of AOL.com

1. **Myth: I can boost my credit score by closing credit cards I don't use.**

   Fact: Think twice before closing an account -- especially if it's a credit card you've had for several years. Your credit rating is determined in both the duration an account has been open and the balance in relation to the card's limit, says Rodney Anderson, managing partner of Rodney Anderson Lending Services in Plano, Texas. If you're inclined to close your account, you're much better off just sticking the card in a drawer, but keeping your account active by using it at least once every three months.

2. **Myth: Checking my credit report will lower my score.**

   Fact: A "hard credit pull" -- the type of examination that's made for those applying for a new credit card, say, or a mortgage -- stays on a credit report for at least six months, and it will lower a credit score. But checking your *own* credit report, contrary to hurting your score, is "a great tool, especially when you're making big-ticket purchases," says Charles Harris, an executive at FreeCreditReport.com. "The higher your score, the more likely you may be able to negotiate lower interest rates, which gives you more control over your personal finances."

3. **Myth: My age, race, gender, marital status, religion, or income can affect my credit score.**

   Fact: Not true, says Lynnette Khalfani-Cox, author of *Zero Debt: The Ultimate Guide to Financial Freedom*. Federal law prohibits credit scoring from taking any of those factors into account. In fact, records maintained by the reporting agencies include no personal demographic information apart from birthdates.

4. **Myth: If I negotiate with my credit-card or mortgage company, my credit score will go down.**

   Fact: Not necessarily, says Spencer Sherman, author of *The Cure for Money Madness* and founder of financial advisors Abacus Wealth Partners. "If you're up-to-date with payments, then negotiating your credit-card or mortgage payments will not likely affect your score," he says. To protect your score, he advises, try extending the term of the loan or negotiating a reduction in interest rate, rather than trying to get the principal reduced.

5. **Myth: I pay cash for everything and don't buy on credit or use credit cards, so my credit score should be excellent.**

   Fact: Having no credit history, or never using credit, can actually hurt your score, Khalfani-Cox says. Card issuers tend to view customers with neither debt nor credit cards as higher-risk than those who have cards and who manage their debt responsibly. Credit-rating agencies like to see that you have a history of paying credit obligations on time.

6. **: My $6 library-card fine couldn't show up on my credit report.**

   Fact: Return your overdue books at once. Even miniscule library fines can lower a credit score by as much as 50 to 100 points, says Rich Rosso, a financial consultant for Charles Schwab & Co. Same with unpaid parking tickets and utility bills. If you pay up before your debt reaches a collection agency, you should be OK; your library probably posts its collection-agency policy online. "Every municipality appears to have various time frames for collection based on size of the debt and the length of time it's been in arrears," Rosso says. For example, Cedar Rapids Public Library in Iowa will initiate a courtesy reminder three times after items are due. If fines are still not paid and books not returned, then the borrower's account may be turned over to a collection agency.

7. **Myth: If I pay off a collection account, my credit score will clear immediately.**

   Fact: Not so. "Paying off a collection account will not remove it from the credit report," Rosso says. "It will remain for seven years." Still, a collection account is just one aspect of your credit score; if you're up to date on mortgage and credit-card payments, the collection account probably won't drastically damage your score.

8. **Myth: As far as credit rating is concerned, all credit cards are the same, whether it's a Visa, an American Express, or a card from a department store.**

   Fact: Stay away from store-brand credit cards. Approximately 10 percent of a person's credit score is based on the institutions from which money is borrowed, says Anderson. Finance companies, often used by retailers that offer their own credit cards, are considered higher risk than banks. Wal-Mart cards, for example, are backed by GE Money Bank, and Ann Taylor credit cards are issued by the World Financial Network National Bank. "A prevalence of credit lines from finance companies could negatively affect your credit rating," he says.

9. **Myth: It's OK if my card issuer lowers my credit limit a little bit -- I never max out my cards. I keep my balance lower than 75 percent, so I should be fine.**

   Fact: That's wrong, Sherman says. "Most people stay just at the edge of their credit limits, but you want to stay well below your maximum available credit." That's because 30 percent of your credit score depends on how much credit you use of the total credit available to you. Aim to keep your balance below 35 percent of your limit.

10. **Myth: I don't make enough money to have a good credit score.**

    Fact: While people with more money tend to have better scores, your income has no effect on your credit score, says Avinash Karnani, co-founder of justthrive.com, a personal-finance management site. "People who make more money are less likely to be borrowing above their limits and paying for things on credit, rather than using existing funds," Karnani says. But anyone can improve his or her credit score by paying down debt, monitoring your credit report to track how often you're applying for cards and loans, and making sure to keep your oldest credit card open so it remains in your credit history.