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10 Myths About Your Credit

It can be difficult to fully understand your credit scores and reports. However, your credit is an important factor in determining your financial health, so we at Ryan Homes are here to clear up some of the most common myths and explain it all. If you have any credit concerns or questions, our trained specialists can help you unravel the connections between your financial decisions, credit scores, loan qualification, and interest rates. Schedule a visit with us today.

1 Paying a debt will remove it from your credit report.

Late payments, delinquent accounts, tax liens and collections usually stay on your credit report for seven years from the date of the delinquency—even if it's been paid. Having a delinquent account on your credit report can substantially lower your credit score. However, the farther in the past it is, the less impact it will have on your score as long as the debt is reported as paid.

Note that an unpaid negative account will continue to lower your overall credit score.

2 Canceling your credit cards will improve your credit score.

Not true. Approximately 15% of your credit score is based on the length of time you've had credit reported. If you close a card you've had for a long time, leaving only newer cards open, you're effectively shortening your credit history.

30% of your credit score is based on the amount you owe in relation to your total lines of credit. Keeping a card open that has a zero balance can keep your total available credit high in proportion to the balance you carry, helping to raise your score. However, the total mix of accounts is factored in as well, so having too many open cards isn't advisable.

3 Your credit score is the same at all three credit bureaus.

Each of the three major credit bureaus—Equifax, Experian and TransUnion—generates their own scores based on the information reported to them. For example, if a particular creditor only reports to Experian, then your score at Equifax and TransUnion won't take that creditor's information into consideration when calculating your score, resulting in a different score. Also, while each agency uses the same basic algorithms for scoring, they weigh each item differently.

4 Routinely checking your credit report will lower your score.

Your credit score isn't affected by inquiries that are made for marketing purposes or that are initiated by you for the purpose of verifying the accuracy of your credit report. While marketing inquiries are reported on your credit report, your own requests for a copy of your report are not shown, nor are they reported to your creditors. Only inquiries that you initiate to obtain new credit are counted in your score.

5 Shopping around for a loan can damage your credit score.

Rate shopping shouldn't affect your score because inquires are made for a particular type of credit during a short period of time. If the same types of inquiries happen within a one-month period, they count as just one inquiry on your credit report—although this only applies to mortgage loans, not credit card inquiries.

6 Paying cash helps increase your credit score.

Paying cash is a great way to stay out of debt, but it can hurt your overall credit score. Your score is determined by your credit history, which depends on having and using credit. Paying cash for everything—unless you're using it to pay your credit card bills in full each month—won't show on your credit report, so it won't help establish a positive credit history.

7 Marrying someone who has poor credit will hurt your credit score.

Although getting married generally means you'll be combining finances, your credit reports won't be combined. If you open a joint account, the credit information will show up on both reports, but your (or your spouse's) past negative credit history won't be reflected on the other person's credit report unless you add your spouse to an account with a negative history.

8 Co-signing for credit doesn't make you responsible for the loan.

Many parents make this mistake when they help their child buy a car. If the primary loan recipient is unable to pay, the co-signer is responsible for making payments—period. It doesn't matter who has possession of the car (or other collateral), the creditor will seek out the person who is most solvent.

9 Negotiating a settlement on a debt won't hurt my credit score.

While it helps to have a debt marked as "paid," you should know that unless you pay the full amount of the debt, the creditor is within their rights to report the debt as "charged off" or "paid a negotiated amount." You can ask the creditor to report the item as "paid as agreed" when you negotiate a settlement of the account—just make sure you get it in writing.

10 Making a late payment won't affect my other credit accounts.

Making a late payment should not affect your other credit accounts. However, the universal default clause that's included in most credit card agreements allows creditors to raise your interest rate if you make late payments on other credit accounts.

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