10 Myths of Credit

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

Late payments, delinquent accounts, tax liens and collections will usually stay on your credit report for seven years from the date of the delinquency, even if it has been paid. Having a delinquent account on your credit report can substantially lower your credit score; however, the more remote it is – the farther in the past – the less likely it is to have a large impact so long as the debt is reported as paid.

An unpaid negative account will continue to lower your overall credit score.

Myth 2
Canceling your credit cards will improve your credit score.

Not True. Approximately 15% of your credit sore 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 help you keep your total available credit high in proportion to the balance you carry, which can help raise your score. Of course, the total mix of accounts is factored in there too, so having too many open cards isn't advisable.

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

Each of the three major credit bureaus, Equifax, Experian, and Trans Union, generate their own scores based on the information that is reported to them. For example, if a particular creditor only reports to Experian, then your score at Equifax and Trans Union won't take that creditor's information into consideration when calculating your score, resulting in a different score.

Additionally, although each agency uses the same basic algorithms for scoring, they weigh each item differently.

Myth 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. Additionally, while marketing inquiries are reported on your credit report, your own requests for a copy of your report is not shown, nor is it reported to your creditors. The only inquiries that are evaluated are those that you initiate to obtain new credit.

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

Rate shopping should not affect this factor because inquires will be made for a particular type of credit during a short period of time. If the same types of inquiries are made within a one month period, they only count as one inquiry on your credit report, although this only applies to mortgage loans, not credit card inquiries.

Myth 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 is defined by having and using credit. Therefore, paying cash for everything, unless you're using it to pay your credit card bills in full each month, won't show up on your credit report, nor will it help you establish a positive credit history.

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

Although getting married generally means that 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 that has a negative history.

Myth 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 not able to pay, the co-signer is responsible for making the loan payments. Period. It doesn't matter who has possession of the car (or other collateral), the creditor will come looking for the person who is most solvent.

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

While it helps to have a debt marked as "paid", you'll need to remember that unless you pay the full amount of the debt, the creditor is within its 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; make sure you get that in writing though.

Myth 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 is included in most credit card agreements allows a creditor to raise your interest rate if you make late payments on other credit accounts.