# 8 Myths About Your Credit

# “What You Don’t Know That May Be Hurting Your Score”

# Preface:

You're reading this because you're concerned about your credit report.

Either you need to repair it and get your credit score moving upwards, or you already have pretty good credit and just want to make sure you're staying on top of things.

It used to be that a bad credit report would just keep you from getting loans. And in a way that makes sense—who would want to loan you money if you're already not that great at handling debt?

The only folks really impacted by this were those who turned their money situation around and wanted to get ahead, only to be denied due to past actions.

Now, **you can be denied a home or a job** if you have poor credit. Landlords think you won't pay rent on time or at all if you have bad credit, so they choose someone else to rent that gorgeous apartment.

Employers think your credit status reflects on your character and dependability, and will factor it in when making hiring decisions.

Some fields, such as law enforcement, will actually dig deeper into your financial history to ensure you aren't a risk for bribery or blackmail due to debt or credit problems.

So, it pays to know all you can about your "permanent record" and get it as accurate as possible. Here, **we'll debunk some common myths** about credit reports.

There are actually ***three different*** credit reporting agencies that track your credit. All three of these agencies will calculate a different credit score on you.

This also means that **all three of these agencies** have the potential to make a mistake when it comes to your "permanent record".

You really need to check all three credit reports at least once a year. Go to http://www.annualcreditreport.com to request a FREE copy of your credit report from each of the major bureaus.

You can order them all at once but I recommend staggering it over a year. Order one today…another in four months and the third four months after that.

In this way you are getting a pretty good idea what your credit report looks like over time. There are some differences between reports but for most people this should be sufficient.

The three major bureaus can be found at:

www.experian.com
www.equifax.com
www.transunion.com

Because credit scores are proprietary information the credit bureaus do not have to give them to you for free.

If you go to http://www.myfico.com/12 you can get their FICO© Standard product, which combines all three reports and gives you online access. The /12 means you'll get a list of up to 12 negative reason codes which give some insight into why your score is what it is and what you can do to improve it.

You'll have to print your own reports, but it's a good deal.

Each of the reporting agencies' websites, including www.myfico.com, have helpful links and articles that explain how to interpret and improve your credit report, so don't forget to check those out.

**Myth #1: All I have to do to fix my report is pay off my debts.**

It's a good start. Although your parents may have been wrong when they said your "permanent record" was going to follow you all your life, your credit report still shows your credit ***history*** .

This means that it's not a snapshot of where you are now; instead, it's a **running commentary** of where you've been when it comes to debt.

The good news is that as time marches on and you continue to pay your debts in a timely manner, your history will begin to reflect that, until you reach a point where prior credit mistakes are no longer reported.

How long does that take? That's another myth we'll debunk next.

**Myth #2: My credit report is cleared after seven years.**

Maybe.

If you filed **Chapter 13 bankruptcy** (just reorganization of debt versus clearing all debts), then yes, your bankruptcy will clear after seven years.

However, if you filed the **more typical Chapter 7 bankruptcy** (when all your debts are eliminated for you) **it will take ten years** for that mark to come off your "permanent record".

Fortunately, good news stays on your report for at least seven years as well.

So, if you paid a debt responsibly by paying it off on time, that will count on your report as a big "plus" for at least that long.

**Myth #3: No one sees my credit report unless I say it's okay.**

This may shock you, but the **only** entity that needs your permission and signature to access your credit is a prospective employer.

That means anyone with a "permissible reason", at any time, can pull your credit report. That includes any time you apply for loans, credit or services. Some business and legal entities may have "permissible reasons" as well.

However, they need personal identifying information to do so, and that usually includes your Social Security number. So guard that information as closely as possible.

You may even want to keep a log of who you give your Social Security number out to, and when—just in case.

**Myth #4: Lots of inquiries will hurt my score.**

Maybe.  It depends on the TYPE of credit that is being sought and timing is now important.

Ten different applications to a credit card company in a short period of time will hurt your score by counting as ten different inquiries.

Ten different applications to qualify for a mortgage (or auto loan) in a 30-day period will count as only one inquiry.

It's easier and easier for consumers to access credit from many different places. Smart consumers will "shop" for the best terms and rates when it comes to credit purchases.

The credit reporting agencies realized that **ten different mortgage loan inquiries** within a 30-day period simply means a potential homeowner is looking for the best—and most affordable—mortgage they can find.

They won't hold it against you.

Why the change of policy? Apparently, since the credit reporting agencies use statistical models when it comes to calculating credit scores, **"credit inquiries" aren't very predictive** of future behavior.

That means folks who have had a lot of mortgage or auto loan related inquiries in a small period of time cannot reliably be expected to fall behind on their debts. It just isn't a factor.

So relax—be savvy when you're shopping for mortgage or auto loans —and don't worry about all those inquiries.

**Myth #5: Requesting my own credit report will hurt my score.**

Agencies can tell who's asking for your credit report. They know whether it's Sears wanting to give you a credit card, or whether it's "you" just doing your annual credit check-up.

One is called a "hard pull" (Sears) and the other a "soft pull" (YOU).

**But watch out.**

You know those companies that promise you a **free credit report**?

Well, the agencies think those merchants are stores just like Target or Sears, and when they ask for your credit report on your behalf (to give it to you "for free"), it counts as a "hard pull".

In order to get your report and have it counted as a "soft pull", you must go to http://www.annualcreditreport.com or one of the three agencies or http://www.myfico.com/12 and **ask for it yourself**:

www.experian.com
www.equifax.com
www.transunion.com

**Myth #6: My score changes very slowly.**

Not true. **Your score is totally dynamic**. It changes all the time This will either hurt you, or work in your favor, depending on what you've been doing with your finances.

Every time someone pulls your credit report, **your score changes**
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Every time you balance and payment history is reported to the credit reporting agencies, **your score changes**.

This isn't something you should obsess over but realize that your score can change quickly if you can speed up the paying off of your debts. Do you have a plan to do that? If not, check out this one:

**Myth #7: Getting rid of my credit cards will help my score.**

There's no doubt that having a lot of credit cards with balances probably isn't healthy for your finances or your credit score.

It's also a fact that having a lot of open credit card accounts with zero balances still spells trouble (read: "open" is the same as "available").

**But you need to have at least two or three revolving credit accounts in good standing** to boost your credit score. This shows that you (a) have credit and (b) can handle it responsibly.

Otherwise, you're a risk, because your credit behavior is "unknown".

Here's a good rule to follow: **all things in moderation**. Go ahead and open (or keep) two or three credit card accounts. In a perfect world you will use them and pay off the balance each month.

**A tip** : when you open an account, ask to have your credit limit set to a low amount. When you don't have a lot of "credit available", you prevent yourself from spending above what you can afford, and you still provide a way to show the credit reporting agencies that you can be responsible with debt.

Remember that statistical model we talked about? Apparently, having lots of ***empty*** , open credit card accounts isn't a predictive factor as to whether or not you'll default on debt.

Not paying bills on time and being overextended are **definitely** an indicator. So avoid those behaviors at all costs.

Here's another example of how closing accounts can HURT your score:

Let's say you have four credit cards with limits of $5,000 each.

| Card # | Credit Available | Credit Used |
|---|---|---|
| 1 | $5000 | $4000 |
| 2 | $5000 | $4000 |
| 3 | $5000 | $2000 |
| 4 | $5000 | 0 |

In this example you have $20,000 in available credit and you are using 50% of it or $10,000. If you decide to close Card # 4 because you aren't using it you'll then be using 66% of your available credit.

This will hurt your score.

So, assuming having empty credit cards is not too much of a temptation for you, keep them open to improve your credit score.

**NOTE:** Having empty and unused credit cards made be a temptation to the credit card companies themselves to close your account.

**Myth #8: Using credit counseling will hurt my score.**

This one gets a little tricky.

The FICO scoring models don't take into account whether or not you're in debt counseling. **So, being in counseling in and of itself does not lower your credit SCORE**.

However, each of your individual creditors has some discretion as to how they report the debts/terms your counseling agency may re-negotiate.

For example, if you re-negotiate a payment down to $250 from $450, **your creditor can legally report your account as "in arrears"**, which will negatively impact your score.

Or, the creditor can report your account as "current", and keep it that way as long as you make your new payments in a timely manner.

Given the rash of bankruptcies over the last few years, many creditors are now "rewarding" consumers for not filing bankruptcy by offering to report accounts as up to date as long as consumers are paying **something**. But you won't know until you're in counseling and the negotiation process starts.