# TOP 11 CREDIT REPORT MYTHS

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## Credit Myths Resolved

Many people are scared of credit. They hear myths or false advertisements and don't know who or what to believe. They are afraid of falling into a pool of debt by getting scammed, encountering a costly, unexpected life event, or simply mishandling their credit. In fact, there are many people who think or hear that "credit is bad" and it is "a way to keep you in debt."

The truth is that, if handled and repaid responsibly, credit can be a useful tool to help you achieve your life goals, such as owning a house, purchasing a car, or furthering your education. Today, your credit score is more important than ever with insurance companies using consumers' credit scores to determine their insurance rates. Likewise, with your permission, employers can also request to see your credit report. For these reasons and many more, credit is important and it can be beneficial if you learn how to manage it properly. In order to do this successfully, it is important to educate yourself so you know what is true and false about credit. Being aware of the following 11 myths about credit is a great place to start. It's time to set the record straight!

## Credit Report Myths

1. **Paying my debts will make my credit report instantly pristine.**

   A credit report is a history of your payments, not just a snapshot of where you are at the moment, says Maxine Sweet, vice president of public education for Experian, one of the three major credit reporting agencies. As the author of the popular web column "Ask Max," she reminds people that you can't change the past. Even though you can't change the past and your credit isn't immediately pristine once you pay your debts, it can improve over time as you make ongoing, on-time payments.

2. **Credit counseling always destroys my credit score.**

   Over the years, many misconceptions about credit counseling agencies have come up. More people today understand that if an account is reporting as "managed by a credit counseling agency" it is not viewed negatively by lenders. Working with a credit counseling agency is viewed as a neutral mark which alone will not negatively affect your score. If you decide that calling a nonprofit credit counseling company is right for you, make sure to make an educated decision about which company you choose to work with. Make sure the company is accredited and check with the local Better Business Bureau. You can also check with the attorney general's office to see if there are any complaints pending against a company. Do not waste money on fancy credit monitoring or identity protection. You can monitor your own credit for free.

   Attending a credit counselor's debt management program is not considered negative in the scoring models. "We don't want consumers to consider credit counseling to be detrimental to their FICO scores," says Craig Watts, Public Affairs Manager at Fair Isaac Corp., the company that developed the FICO score. However, if the credit counselor negotiates a lesser contractual obligation, the lender decides how it wants to report that. So if your $500 monthly payment is refigured for $300, the creditor may either legally report that as $200 in arrears every month or reward you for not filing bankruptcy by reporting the account as up to date.

"As long as the accounts are delinquent and not brought up to date, it will be viewed negatively by lenders," says Deborah McNaughton, owner of Professional Credit Counselors and author of "The Get Out of Debt Kit." However, she says, "if everything is current, whether it's a home loan or not, they're not going to view it as negative. The FICO scores are not affected by it." Although credit counseling alone does not influence your credit score, it is apparent on the credit report that you are currently in credit counseling or have been through credit counseling. From there, each individual lender can view it (or not) and decide how much they will let that affect their lending decisions.

"If they looked manually at your credit report and see that debts are being repaid through a debt management program, they probably wouldn't open a new account for you," Sweet says. Of course, "you shouldn't be opening a new account if you're in a debt management plan." However, most lenders these days will never see your actual report. "They don't look at reports manually anymore," Sweet says. "Some small creditors might, but most of any size use automated scoring systems of one model or another." Once you've successfully emerged from credit counseling with your formerly tattered credit pieced back together, the history of consistent payments is what matters the most. "Even mortgage lenders will work with consumers who have successfully gone through debt management counseling and will work to get them a mortgage," McNaughton says.

## 3. Canceling credit cards boosts my score.

"Open accounts spell available, potential debt, so better to close them," runs the legend. But experts agree that most creditors want to see at least two or three pieces of active credit to prove you can manage debt responsibly. Watts chimes in, "those unused cards lying in your jewelry box aren't wreaking havoc with your score."

"The myth is that they look ominous to potential lenders," he says. "Reality is that paying your bills on time and not being overextended is more important than having $5,000 worth of available credit on a card you're not using. We continue to evaluate this 'total credit limits' statistic, and we simply don't find it falling into one of those highly predictive areas."

In other words, closing credit card accounts will not help your credit score. Do not think that if you, for example, go through your credit report and close all of your zero balance accounts that it will boost your score. If an older account has a balance of zero it is helping your available credit, thus, closing that account would most likely hurt your score. Many people think that asking lenders to lower their credit limit will help their score but this is not the case for the same reason as above. Your available credit will decrease and could lower your score. Either way, it will not increase your score.

Many people think that if an account is closed and reports as "closed by consumer" it is a negative item on their credit report. Do not worry if a lender reports an account as "closed by credit grantor." It's true that they could have closed it due to delinquency but they also could have closed it due to inactivity. The statement "closed by credit grantor" itself is not bad. Lenders figure that if the credit grantor closed the account due to delinquency then the payment history will reflect that and they are looking at the payment history.

## 4. Too many inquiries hurt my score.

Once upon a time, this statement was true. However, in this millennium, the credit agencies recognize a shopping mind-set when they see one. Especially when rate shopping, multiple inquiries within a certain amount of time, are only counted as a single inquiry.

"Outside that 30-day period, if we locate a mortgage or car inquiry that occurred 180 days ago, and then see more mortgage or auto-related hits in the accompanying 14-day window, we error on the consumer's side and still assume she's shopping for one item," he says. "We really feel like we are capturing the true consumer experience and not holding it against them for being an aggressive or smart rate shopper."

Furthermore, "there's no such thing as some fixed number of points associated with these inquiries," Watts says. "Inevitably, when a consumer or a lender evaluates a credit file, they think this item must be worth 20 points, this is worth 100 points," he says. "In reality, we design the FICO scoring model so that each credit report item is given a reasonable or statistically valid number of points."

In English, that means that ultimately credit scores are designed to predict the likelihood that you'll fall seriously behind in repaying one of your creditors within the next two years. Some things have predictive value and some don't. Inquiries fall in the middle. "They're not incredibly predictive, so they're in the model but they don't drive the boat," Watts says.

## 5. Checking my own credit report harms my standing.

The reporting agencies distinguish between soft and hard pulls. For example, when Target calls to check your credit report before issuing its line of credit, the agencies consider that a hard pull and it counts against your score. Personal requests are considered soft pulls which do not negatively affect your credit score.

Every consumer should pull their credit report every 6-12 months to check for errors and fraud. Pulling your credit report will not harm your score. Rate shopping will only count as one inquiry instead of numerous ones as it is common practice to search for the best rates.

Likewise, if done correctly, requests by credit counselors can also be considered soft pulls. If you are working with a credit counselor, you should insist on this as part of your agreement terms. However, "using a company that promises credit reports as a perk can turn this myth into a self-fulfilling prophecy," McNaughton says. Their freebie can cost you because they are merchants in disguise. Citizens must go directly to the three bureaus if they want a soft pull.

"Pulling your credit scores is quite empowering," says Watts. "You have a choice: you can either be very aggressive with your credit management and pull your score with some regularity or take a more passive approach once a year to see how all those credit cards are actually doing."

## 6. Credit scores are locked in for six months.

Fair Isaac Corp.'s models are dynamic, meaning that your FICO score changes as soon as data on your credit report changes. "When we calculate a score, for all intents and purposes it then goes away and is recalculated the next time someone pulls your file," says Watts.

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

When the Consumer Federation of America and the National Credit Reporting Association analyzed credit scores in the summer of 2002, they discovered that 78 percent of the files were missing a revolving account in good standing, while 33 percent of files lacked a mortgage account that had never been late. Twenty-nine percent contained conflicting information on how many times the consumer had been 60 days late on payments. "There can be a lot of other activity going on that you don't have any clue about," McNaughton says.

In her experience, 80 percent of all credit reports have erroneous information ranging from a wrong birth date to accounts you never applied for. For these exact reasons, it is important to check your credit reports from all three of the major credit bureaus (Experian, TransUnion and Equifax) so that you can detect and correct any inaccurate information that may be harming your score. Whether you pay your bills on time or not, it is smart to monitor your credit report.

## 8. All credit reports are the same.

This is extremely false. These days, most creditors across the country do report their information to all three major agencies: Equifax, Experian and TransUnion. Nevertheless, "that was not true in the past," Sweet says. Due to the fact that they are separate companies, the speed in which they update records isn't necessarily equal.

Additionally, the agencies use inquiry activity to update your address, phone numbers, employment status and the like. For example, it's possible that TransUnion doesn't show your current address because creditors typically pull only one company's report. McNaughton says she's never seen a client yet for whom all three reports spit out the same records and scores.

## 9. A divorce decree automatically severs joint accounts.

"The judge may have rubber-stamped your plans to divide credit card, car and house payments, but that carries absolutely no legal weight with the creditors themselves," Sweet says. "We see so many people who, a year or two after the divorce, are just outraged and hurt because their credit report reflects their ex-spouse's missed payments," she says. Unfortunately, at that point, they are helpless to erase the damage.

Divorcing parties must contact the creditors and either close current accounts or have the booted name sign a letter of consent for this action. "Furthermore, assuming certain debts isn't just a one-sided decision on your part," says Sweet. Creditors typically do a credit check on your name and if they don't deem you financially stable enough to assume that $30,000 car loan, for instance, they won't agree to remove the other person.

## 10. Bad news comes off in seven years.

Some of it does. Chapter 13 bankruptcy (reorganization of debt) disappears seven years from the filing date. But if you filed Chapter 7 bankruptcy (exoneration of all debt), the window is 10 years from the filing date. On the positive side, accounts in bankruptcy can be deleted seven years after the date of your first missed payment, so those individual pieces may disappear before the word "bankruptcy" does on your report. Also, "if you pay off or close an account that had no delinquencies or problems, it too, remains on the record for 10 years rather than seven," say Experian experts. Again, this means positive information hangs around longer than negative information, which benefits consumers.

## 11. I can always pay someone to fix or repair my credit.

Yes, you can clear up inaccurate information posted to your account, such as a repossessed car that you didn't purchase in the first place. On the other hand, factual evidence that can be proved by you or the creditor will not be removed in a dispute. For example, if you paid your Sears bill three months late in 2004, that's a hard fact. Companies claiming to fix your credit deliver on their promises by generating a flood of dispute letters to the credit reporting agencies, which in turn ask the creditor to verify or document the entry. If the creditor verifies that the account information that they reported to the agencies is indeed inaccurate, the mistake must must be corrected on the credit report. Conversely, if the creditor later does verify that the disputed information is actually correct, that information will remain on that agency's credit report.

Hopefully, correcting these myths will not only set the record straight on credit reports and scores, but will also give you more confidence in managing your credit wisely. In this case, knowledge truly is power. When you learn how to manage and repay credit by reading accurate information, it can help you achieve your life goals as well as your financial success and freedom.

**Read more: http://www.bankrate.com/finance/money-guides/11-things-you-never-knew-about-your-credit-report-1.aspx**


**www.ChristianCreditCounselors.org**
**1.800.557.1987**

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