

Six Popular Credit Score Myths

Your credit score is one of the most important numbers in your life and one of the most misunderstood. So many people don't understand how the credit scoring system works because Fair Isaac Corporation, the designers of the FICO credit score, gives only vague hints as to how they calculate it. It's specially designed to be difficult to understand and impossible to guess. As a result, there are plenty of myths and misunderstandings floating around the score. In this article, we will take a look at the six most egregious of those myths and put them to rest.

1. You are Your Score

Most people don't think about or see their score until they're applying for a loan, be it a car loan or a mortgage. If the score is high, they feel great. If the score is bad, they feel terrible. Your credit score is only a measure of how risky you are as a borrower. It is not an indicator of who you are as a person, what you are capable of doing, or whether or not you'll actually default on a loan. It's merely a numbers game and to the lender's risk department, you're only a risk that needs to be assessed and addressed based solely on the numbers.

Unlike you as a person, your credit score can and will change. Your credit score can be wrong. Your credit score might be good in one scenario but not as good in another. What is a good credit score? It depends on the loan!). So don't feel bad if your score is low, just change your behavior so that it can improve. Check your report for inaccuracies and errors. Do the right thing, starting today, to improve your score or maintain it's good standing.

2. Build Credit With a Balance

One of the most popular credit score myths is that you need to carry a balance in order to build credit. Fortunately, that's not true. In reality, 35% of your credit score is based on your payment history and creditors don't care whether you carry a balance or not. In fact, your credit cards will report your statement balance each month with no other information. No one knows, or cares, whether you've carried a balance from month to month or just racked up the charges on the statement in the last month.

You are building credit, based on your payment history and your balance, regardless of whether or not you pay interest to the credit card companies. The effect on your credit remains the same.

3. Checking Your Score Hurt

There are two types of credit inquiries, a hard inquiry and a soft inquiry. A hard inquiry is any inquiry made in conjunction with a lending decision, such as from a credit card company, mortgage lender, or similar financial institution. A soft inquiry is every other inquiry to include information inquiries as well as your own personal inquiries. Hard inquiries hurt your credit score because it represents a risk. Someone applying for credit is seen as riskier than someone who hasn't applied for credit in quite some time. The more often this happens, the riskier you are and that lowers your credit score.

When you make a request for your credit report or credit score, it has no impact on your credit score.

4. Your Demographics Affect Your Score

The credit score system is all business and has no prejudices or preconceived notions. Your age, gender, immigration status or citizenship, and income have no effect on your credit score. If

you've pulled your credit report lately, you may notice that your report doesn't even list your citizenship or gender. My Experian report doesn't list my birthday, Transunion only has month and year, and neither know my salary (though they do list places of employment).

Your age does play an indirect role in your score. The length of your credit history is a factor because the bureaus need enough data to make a determination of your credit risk. If you're only 21, you haven't had many years to build a credit history. However, just because you're 50 doesn't mean you have enough either, if you only applied for credit when you were 49.

5. Boost Your Score, Dispute Negatives on Your Report

One of the most popular "improve your credit score quick!" tactics is to dispute every negative item on your credit report. If the reporting company doesn't respond in 30 days, the negative mark will be removed and your score will likely increase. While this sounds like a good idea, this usually doesn't work as effectively as the credit boosters claim. If you see anything incorrect, by all means dispute it. If you see correct but negative information on your report, you can try this tactic but don't get your hopes up.

6. A Marriage Merges Credit

When two people are wed, they share a lot of things but they don't share a credit report. What happens is a lot of their credit lines may merge, thus reporting to both reports, but the report itself is not merged. Each person retains their own report. When a couple applies for a joint mortgage, that mortgage will appear on both credit reports. When they apply for a joint credit card, the inquiry and the account, if they are approved, will both appear on the reports. If they separate, they will still have their own individual credit reports.

Before today, which of these myths did you believe? Which of these did you already know but can't seem to convince your family and friends that you are right? Are there bigger myths than these out there that need tackling?

SOURCE: US News, as quoted in YahooFinance, 9/17/20, Jim Wang. Jim Wang writes about personal finance at Bargaineering.com.

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