

# Credit Myths That Put Your Score At Risk

It seems everywhere you look, some program or Web site offers credit fixes, offers and deals that make it seem so easy to consolidate debt or, worse, get “easy credit” to buy the things you need. They offer “free credit analysis”-many of which will most likely lead you down a path of credit destruction. Most of what is out there is just plain misinformation and contradicts the steps you are taking to improve and maintain your credit scores. The best defense against making a credit blunder is to better educate yourself about credit and ways to manage it.

Consumers and credit professionals wage the battle for credit education and improvement on several fronts. Initially, I want to help you become aware of the fact that credit scores and reports hold the key to all hopes of obtaining financial freedom, the best rates on home and auto loans, and of course, the American dream. I understand the system and I know how you can benefit from taking the smartest steps. If I do my job well for you, I will help educate you on the factors that make up your score, ways to navigate the system, and how to get good credit and keep it.

One of the ways I can help you avoid the traps of dangerous credit mistakes is to challenge 10 common credit card myths. Once you learn the truth behind these myths, you'll be in a more knowledgeable position to distinguish between positive credit options and negative credit advice that can destroy your credit scores.

## 10 Credit Card Myths That Put Your Score At Risk

### Myth #1: You Should Avoid Using Credit Cards - FALSE!

There are many finance experts out there that advise consumers to stop using their credit cards, pay off everything, and go to an all-cash plan. That may be a good way to get rid of debt, but it's utter destruction to your credit score. Why? Because per Fair Isaac, the creator of the credit scoring system, there are 5 factors that make up your credit score, one of which is how you use and manage your credit card debt-a factor that makes up 30% of your score. That's 255 points!

In order to prove to the scoring system that you know how to manage revolving debt, you MUST have active credit card accounts. Use your cards every month, for groceries, gas, etc. and pay them off every month. If you do not have a credit card at this time and your scores are under 650, you should consider immediately applying for a secured credit card. If your scores are high enough (ask your bank what the score requirements are), you may want to consider going to your bank to apply for a card. Exception: Do not apply for credit of any type when you are about to enter into or have already entered into a loan transaction. New Credit temporarily brings down your score due to the debt and the new account.

**Myth #2: Consolidating Debt Onto 1, Low-Interest Credit Card Will Increase Your Scores - FALSE!**

Everyone gets the offers: “Dig yourself out of your financial hole with a balance transfer.” They tempt you with big checks, one with your name printed on it. “Take a vacation. Improve your home. Or, just consolidate your debt. These checks are yours to do whatever you want.” Sounds great, doesn’t it? And it would be great except for the fact that if you consolidate all of your debt onto one credit card, you will max out that card and your credit score will drop 80-100 points overnight! Oops, they forgot to tell you that, right! Per Fair Isaac, if you have a maxed-out balance reported on your credit card statement, you can lose 75+ points instantly, regardless of how good your credit history is. Do not consolidate your credit card debt onto one low interest card UNLESS if after transferring the debt the balance on the credit card you are transferring to is under 30% of the available limit.

**Myth #3: It’s Okay If You Go Over Your Credit Card Limit Because The Credit Card Company Authorized the Purchase - FALSE!**

Nothing is further from the truth. Don’t go over your credit card limits, even if it’s just by one dollar. Doing so deals you a double penalty and you could lose 80-120 points from your scores. Why? Going over your limit makes it appear that you cannot hold to a creditor’s agreement and that you are overextended. Something to note: even if you call your credit card company and they approve an additional \$200 over the telephone, you still get penalized.

**Myth #4: Closing Credit Card Accounts Will Help Your Score - FALSE!**

Don’t close credit card accounts at all, with the exception of closing a joint account after a divorce. You will lose points in two factors when you close a credit card account, both in the Amounts Owed factor which is worth 30% of your credit score, and in the Length of Credit History Factor which is worth 15% of your credit score. (These 2 factors combine to make up nearly half of your credit score, so pay attention here.) The more available money you have that you are not using, the better your score, and once you close the account, you lose the available limit on that card. Also, a common misconception by consumers is they believe when you close a credit card account, any bad history on that account goes away. This is not the case. That history stays with you.

**Myth #5: Becoming an Authorized User on Someone’s Credit Card Makes You Legally Responsible for the Account - FALSE!**

It is true that any activity on these accounts, good or bad will show up on your credit report if you are an authorized user, but unless you are a JOINT owner or Co-Signer of the account, you are NOT legally responsible for terms of the agreement with the creditor, and you can have your name removed from the account at anytime. Keep in mind that if any negative history reported during the time your name was on the account, that history will remain, but no further negative history will be reported.

**Myth #6: The Type of Credit Card Doesn't Matter - FALSE!**

The credit scoring system does not like third-party finance cards (i.e. department store cards, furniture store cards, etc.) Always try to stick with major credit cards (i.e. Visa, MasterCard, etc.)

**Myth #7: Your Divorce Decree Protects Your Credit Score - FALSE!**

Even if your divorce decree stipulates that your ex-spouse is financially responsible for debt that is held in both your names, you remain financially liable for that debt until it is paid in full. Both of you entered into a binding contract with the creditor. If your ex-spouse is named as the responsible party for a jointly held debt, and you cannot afford to pay off the account and close it immediately, then you should monitor the account closely to make sure it is being paid on time. Otherwise, negative payment history information will appear on your credit report, and could drop your score by up to 75+ points overnight. Keep in mind that it is against the law for a creditor to remove a late pay without documented proof that it was their error. One late pay can affect your score for many years.

**Myth #8: Marrying Someone Who Has Poor Credit Will Hurt Your Credit Score - FALSE!**

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 as an authorized user to an account that has a negative history.

**Myth #9: Making Arrangements to Pay a Charged-Off Credit Card Account Will Help Improve Your Score - FALSE!**

If you have an old charged off credit card debt and you make payment on it, or make a written or oral promise to pay it, you will renew the 7 year credit reporting statute from that date. The best path to take in this instance is to debt negotiate. Offer the creditor .30 - .40 cents on the dollar as payment in full in exchange for a deletion letter from the creditor.

**Myth #10: Those Pre-Approved Credit Card Offers Do Not Hurt Your Score - FALSE!**

Just because credit is offered to you, does not mean that you should accept it. When you receive one of those pre-approved credit card letters in the mail, your credit report has not been pulled yet, so you are NOT approved for the account. Once you pick up the phone to call the creditor, they will pull your report and you will be penalized immediately for the hard inquiry (10% of your score.) It is best to avoid these types of special offer credit cards (including Department Store offers of "Open an account today to save 15% off of your purchase." The scoring system frowns upon 3rd party finance cards.

## **In Conclusion**

As you can see the credit scoring system does not always make sense and it's often the little things that can cost you points off your score. My goal is to help educate and advise everyone as to the best way to build and protect your credit.

If you have any questions or if you just want to sit down and do a credit review I'm always happy to assist. You can contact me as follows:

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