

7 common credit myths

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When you apply for a mortgage, line of credit or even a department store credit card, the lender will check your credit score. If your score is too low (most lenders consider anything below 620 to be “sub prime,” or higher risk) you may not get the loan you’re seeking or, if you do, it will likely carry a higher interest rate. Will your score drop if you check your credit?

For many, credit scores are something of an enigma. We all understand the basic underlying principle (if you pay your bills, you’ll have good credit), but few of us actually know the details involved in calculating a credit score. Worse yet, many hurt their credit scores because of their lack of understanding.

With so much riding on this number, it’s important to understand what factors affect it. Unfortunately, there’s a lot of misinformation floating around about credit scores. Here are seven of the most common myths and the facts to set you straight.

MYTH 1: Your score will drop if you check your credit.

FACT: Fortunately, this one is definitely not true. Checking your own credit profile and score is counted as a “soft inquiry” and doesn’t harm your credit at all. On the other hand, “hard inquiries,” which can bring your score down, occur when you apply for credit or certain other services.

MYTH 2: Closing old accounts will clean up your report.

FACT: Some people advocate closing old and inactive accounts as a way to manage their credit. In most cases, closing your older accounts will make your credit history appear shorter, which can negatively impact your overall credit standing.

MYTH 3: Once you pay off a negative record, it is removed from your credit report.

FACT: Negative records such as collection accounts, bankruptcies and late payments will remain on your credit reports for six to 14 years, depending on the type of information. Paying off the account won’t remove it from your credit history, but will show the account is “paid.”

MYTH 4: Paying off my debts will instantly repair your credit score.

FACT: Your credit score is a measure of your past performance, not your current debt load. Paying off your credit cards and settling any outstanding loans will certainly help, but if you have a history of late or missed payments, it won’t undo the damage overnight. Improving your credit score takes time, so after paying down your debts, make an effort to consistently pay your bills on time.

MYTH 5: Being a co-signer doesn’t make you responsible for the account.

FACT: When you open a joint account or co-sign on a loan, you are taking on legal responsibility for the account. Any activity on these shared accounts, good or bad, will show up in both people’s credit histories.

MYTH 6: Companies can fix your credit score for a fee.

FACT: You may receive an offer from a company that claims it can fix your bad credit rating. The truth is, if the credit bureaus have accurate information, there’s nothing you or anyone else can do to quickly improve your score if you haven’t managed your debts well in the past. (The only way to influence your score is to start managing your debt wisely.) And if there are errors in your file, you can contact the bureaus directly – you don’t need to pay someone else to do it. The two major bureaus have instructions on how to do this on their websites.

MYTH 7: Debit card use helps your scores.

FACT: Debit cards are just another means of accessing your bank accounts. They do not appear on your credit report and do not factor into your credit scores.

Don’t be misled by credit myths. Understand what truly affects your credit score so you can work to improve it.



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