Credit Score Misconceptions:

Urban Myths and Suggestions Regarding Credit Scores and the Use of Credit:

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Avoiding the Use of Credit Cards Completely is Best in Order to Maintain a High Credit Rating:

<u>Wrong!</u>

It is how you use and manage your credit that affects your score…not whether you use them or not. Here are the most important points to consider, regarding credit and credit card use, to maintain the highest possible score:

- Don't miss payments. One 30-day late payment could lower your score by as much as 10%. The size of the payment you missed is less important the fact that it was late. Investigate the possibility of credit insurance, which can allow you to occasionally skip a payment, with no effect on your credit.
- When balances go over about 30% of the account's credit limit, your credit scores will drop. Be cautious of transferring balances from several high-interest-rate accounts onto a single account with a lower rate if that will make the balance in the destination account rise above 30% of its limit. Your total monthly payment will be lower, but so will your credit scores.
- If you can't stop yourself from using cards when you carry them, STOP carrying them. Use a check/debit card and leave your cards at home. If need be, make them hard to use for impulse buying…put them in a safe-deposit box or freeze them inside something in your freezer. (They will be available when truly needed, but not on a moment's notice for trivial, impulse purchases.)
- If you do not have any active open credit accounts for long enough (about 6 months) your credit scores will disappear because of insufficient recent credit history. You should each of your cards periodically, even if you pay the full balance each month.
- Though too many open accounts, or accounts with balances, will lower your score…closing accounts, even if they carry no balance, can also lower your score…especially if it is a card which you have had for a long time. By closing the card, you reduce your credit history and your remaining balances become a larger percentage of your total credit limits. That lowers your scores.
- Opening new accounts, at least at first, lowers your scores because it is not known whether that new available credit will be "the straw that breaks the camel's back".
    - However, if you have little or no credit, especially if your scores are low, you should consider obtaining more credit, even if it is a secured credit card. Then use the card a bit, on a regular basis, and pay it off regularly. By the way, refinancing a mortgage seems to have little effect on credit scores, especially if the monthly payment is lower. It is as if replacing one mortgage with another one is considered "a wash".
    - If your scores are already adequate, and you have applied for a mortgage (or are about to), you should not apply for more credit, make large purchases, etc. In this case, the only changes you should make in regard to your use of credit should be to pay down balances, unless an experienced loan officer suggests otherwise.

It is a good idea to make arrangements to pay down, or to pay off, old derogatory accounts because that will raise credit scores and make it easier to obtain a mortgage.

<u>Wrong! For several reasons</u>:

- Many lenders ignore accounts, even if derogatory, if they pertain to medical expenses or education loans.
- Paying off, or resuming paying down, old derogatory accounts renews the 7-year period for which they will be reported. If they had continued to be ignored, and it was approaching 7 years since there was any activity on the account, they would have vanished from the report and their effect on the credit score would have also vanished. Note: Whether or not you still owe the debt after 7 years of activity is not certain. The 7-year limit only refers to whether credit bureaus continue to report the existence of the debt.

Large balances on credit cards reduce your credit score.

<u>Not True</u>:

The size of the balance on a card has little effect on your credit score. Even your total balance of all credit debt is relatively unimportant, in terms of your score. What is most important are the balances of each account compared to the account limits; the number of open accounts and the number of accounts with any balance at all. Just remember that consolidating accounts, so that there are less of them with a balance, will raise your score less than exceeding 30% of an account's limit will lower it.

It is OK to go over the limit on an account if it is approved either electronically or as the result of a phone call to the card company.

<u>Not True</u>:

Your score will plummet and you will be charged an over-limit fee.

- Going over-limit on a credit account has a much greater effect on credit scores than if your balance exceeds 30% of the account's limit.
- NOTE: There is something positive about having been over-limit, or over that 30% level in the past: Once you pay down the account to below the limit, or below 30% of the limit, your score is not at all affected by having been over those levels in the past, even if it was recently.

Marrying someone with Poor Credit will hurt your score, but divorcing someone will protect your credit.
<u>Wrong, on both accounts</u>!

Your new spouse' poor, past credit history does not get added to your credit report. The only information that will appear on both of your credit reports will be new accounts you open jointly. There are several considerations you should consider, however, in regard to marriage and divorce, as it applies to credit and credit scores:

- Though your spouse's poor credit history will usually not affect your credit, it will affect your credit if you are added as an authorized user on one of your spouses account which has a poor history.
- If you want to buy a new home, and your credit is better than your spouse's credit, it may be best to buy the home in your name only, if you can qualify to do so. If you need your spouse's income to qualify, you will also be penalized because the credit score that the lender will use, in its approval process, will be the middle, lower score of the two of you. Occasionally, it may be advisable to put off a marriage until after you settle on your new home. This is a complicated issue that varies with differing financial situations, mortgage types and lenders. Speak to an experience loan officer in this regard.
- Divorcing someone does not protect you from a credit score drop if debts you incurred jointly are not paid after a divorce. Also, bad credit reportings before the divorce are difficult to have removed because they did occur while married…thus, they are hard to dispute. It will not matter if a court says that you are no longer responsible for the debt. You may, however, be able to obtain a court order for the creditor to remove you from the account. This is definitely something to speak to your attorney about. If you remain on the account, even if a court says you are no longer responsible for paying it, you should continue to monitor it to make sure it is being paid regularly.

If you are added to someone's good account, as an authorized user, you become jointly responsible for the account…but it will raise your credit scores.

<u>Probably wrong, on both accounts</u>:

- Becoming an authorized user does not make you a joint owner or cosigner of the account. You are not responsible for payment of the account; you cannot change the account (such as request a change of address to which the bills are sent) and you can be removed from the account at any time upon request.

What will happen is that all activity, good or bad, will show up on your credit report.

- Being added as an authorized user of a good account may have less effect on your credit scores than in past times. The Fair-Isaac Company, which calculates the credit scores, has said that authorized users will not be affected by the credit history of the subject accounts, because of abuse…though it is uncertain how much of a change was made in the score formula.
  - Explanation: For quite some time, people were being added, as authorized users, to accounts with good histories…strictly for the effect this had of increasing scores. There were some people who even sold the rights for people to be added to their account. They had little liability in doing so because they gave no card to the authorized user; and authorized user cannot, themselves, request a replacement card; and the account owner required password-protected permission when they, themselves, added debt to the card.

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