Debunking Credit Score Myths

Like it or not, your credit score matters. In no way does it measure your value as a person, but it does provide a vital snapshot of your overall financial condition. Higher credit scores often open the door to the best credit card offers, lower loan rates, and even whether or not you're approved to rent a house or apartment. There are many common myths and misconceptions about what affects your credit score, so let's take a look at the truth behind what really makes that magic number go up or down.

Checking your credit report will lower your score. This is probably the most common myth, and unfortunately the answer isn't always straightforward. An "inquiry" is added to your credit report every time someone requests a "hard-pull" of your credit file. Lenders, auto dealers, and mortgage brokers will use a hard pull when you have submitted an application for credit. This often indicates that you will be adding debt, so several hard pulls over a short period of time can lower your credit score. However, viewing your own credit file via a legitimate source like TransUnion, Equifax, or Experian is considered a "soft-pull," and will not affect your credit score. In fact, checking your report regularly is a sign of responsible credit management. And, you may get a free copy of your credit report every 12 months from AnnualCreditReport.com.

Closing a credit card will improve your score. You're unlikely to increase your credit score by closing an unused or paid off credit card. In fact, closing the account might actually lower your score. Credit scoring models use various pieces of information from your credit history to calculate your credit score. A portion of this model measures how much credit you're using in relation to the amount you have available. This is a ratio known as "credit utilization." If you close an unused or paid off credit card, you'll reduce your total available credit. This will increase your credit utilization ratio, and your credit score may decrease.

Student loans don't affect your credit score. This is simply untrue. Your credit score isn't solely impacted by your credit card accounts. Your payment history on all types of debt (including auto loans, personal loans, mortgages, student loans, and credit cards), utilities, medical bills, and even rent will affect your credit score. Defaulted payments on any of these items will decrease your credit score. However, continuous on-time payments will reward you with a healthy credit score.

Your credit score will combine with your spouse's once you're married. There is no such thing as a joint credit report. Married or single, your credit report and score both stay unique only to you. You may submit a joint loan application with your spouse, but each partner's individual credit history and score is taken into consideration by lenders. Joint loans will appear on both of your credit reports, and each of your scores will be affected by the payment history.

Paid off debts disappear from your credit report. Paying off a debt will eliminate the obligation, but the closed loan and payment history will remain on your credit report for years. If you've paid all of your debts on-time, it's beneficial for paid off accounts to appear on your credit report. They show that you've used credit responsibly, and it will be reflected in your credit score. On the other hand,

chronically missed payments or completely defaulted debts will be a problem. Derogatory items can remain on your credit report up to seven years, and in some cases, even longer.

Credit scores are designed to evaluate how big of a risk it would be for creditors to lend you money. If your credit history suggests there's a higher probability that you'll default on a debt, it will be reflected in a low credit score. It's important to remember that good, honest people can have low credit scores. It won't happen overnight, but a poor credit report can be repaired. It starts with steps like paying all of your debts on-time, reducing your balances, and applying for additional credit only when you need it. A positive credit report will help lead you to greater financial well-being.