



Top credit myths – separating facts from fiction

1. **Myth: Credit is impossible to get if you don't already have it.**

Fact: When lenders review applicants, they look at four elements of a credit report: identification, account history, public records (bankruptcy filings, court records of tax liens) and inquiries. If a credit history has not been established, an applicant may need to have someone cosign or be added as an authorized user on an account. A good option for those just starting to build credit when they don't have a cosigner is a secured credit card, which requires users to put up cash as collateral. Once a credit history is established, it is important to maintain a good record of on-time payments and conservative credit use. It may take some time for those just beginning to build credit to see an improvement. Additionally, their credit history will be evaluated periodically and, provided they are in good standing, their credit score will increase.

2. **Myth: Once a credit score is bad, it can never be rebuilt.**

Fact: A credit report is really a credit history, and credit can be rebuilt over time. It doesn't just show the way things are today; it keeps a record of all credit opened in a consumer's name. It will indicate which items are closed or inactive, but the history remains nonetheless. Late or missed payments can stay on someone's report for up to seven years. Rebuilding credit means paying on time, looking for better credit options, and learning more about money and credit. Additionally, the longer a credit history is without negative information, such as late payments, the better. The older negative information is, the less significant it becomes.

3. **Myth: Checking a credit report will hurt your score.**

Fact: If consumers access their own credit reports, it does not have any affect on their credit scores. Reviewing a credit report results in what is called a "soft pull," or "soft inquiry," meaning it will only be seen on a personal credit

report. When a consumer applies for credit, the lender will review the applicant's credit report, and a "hard inquiry" will be added. Hard inquiries are shown to other lenders because they may represent new debt that doesn't yet show on a credit report as an account. Hard inquiries can affect credit scores. Everyone should check their reports at least annually. It's part of good credit management.

4. **Myth: Education level can affect a person's credit score.**

Fact: Education level is not part of a credit report, so it has no bearing on credit scores. Information in credit reports pertains only to debt-related information.

So, loans, credit cards and payment history will be reported, as well bankruptcy, tax liens (debt owed to the government) and civil judgments (debt owed through the courts). Information about income, investments or assets such as stocks or bonds will also not be in a credit report. Likewise, there is no information about savings accounts, checking accounts, certificates of deposit or other nondebt banking relationships. Additionally, under the Equal Credit Opportunity Act, a creditor's scoring system may not use race, sex, marital status, national origin or religion as factors.

5. **Myth: Credit is what got Americans into the current financial mess.**

Fact: Spending too much is what can get people into financial trouble. Credit is a financial tool that can be beneficial if used wisely, but if it is misused, it can get people into trouble. Everyone should set a budget for themselves to ensure they use their credit wisely and that they don't overspend.

6. Myth: Bankruptcy protection is perfect for people with really large amounts of debt.

Fact: Bankruptcy is a legal process that relieves a person of paying the debts. Depending on the kind of bankruptcy, the person may not repay any of the debt or might repay some of it. Bankruptcy can remain on a credit report for up to 10 years and can make it difficult to get credit.

Consumers should investigate bankruptcy if they have no other options, but it's much better to work with a qualified credit counselor who may find better options for working with lenders to repay the debts. Settling the debts for less than originally agreed may be an option that will have a less long-lasting impact on a person's ability to get credit.

7. Myth: There's only one score that all lenders use to determine creditworthiness.

Fact: There are many different credit scoring models used by lenders in the marketplace today. Generic scores may be used by many types of lenders and businesses to determine general credit risk. The three national credit reporting agencies — Experian, Equifax and TransUnion — worked together to develop VantageScore[®], a new generic credit score that uses the same formula for credit information from all three bureaus. To make it easier for people to understand, a letter grade is associated with the number ranges. A grade of "C" is considered good. Custom credit scores are developed to predict risk for specific types of lending or for individual businesses, such as auto loans or retail debt. Custom scores are unique to that specific business or type of lending.

8. Myth: The government owns the credit bureaus.

Fact: Credit reporting agencies are not owned by the government, although there are many laws that regulate how they must operate.

9. Myth: The credit bureaus report people as having either good or bad credit.

Fact: Credit reporting companies do not make judgments about the information in credit reports. They simply compile information that is provided directly and voluntarily by consumer lenders. The information is likely comprised of credit cards, home or auto loans or other monthly payments. Lenders use that information to help them assess the risk of lending to an individual.

10. Myth: Once a delinquent loan or credit card balance is paid off, the item is removed from a credit report.

Fact: Negative information such as late payments, collection accounts and bankruptcies will remain on a person's credit reports for up to seven years. Certain types of bankruptcies stick around for up to 10 years.

Paying off the delinquent account won't remove it from a credit report, but it will update the account to indicate it as "paid."

11. Myth: If bills aren't paid on time because a consumer believes the consumer is incorrect, they can't be held accountable.

Fact: If a bill is not paid in a timely manner, the delinquent payment may be reported as late to a credit bureau. If a bill was never received or was incorrect, it's best to contact the provider or company to resolve or discuss the matter prior to the bill becoming past due.

12. Myth: Paying cash for everything can help a credit rating.

Fact: Credit use isn't bad; credit abuse is. Using cash for everything isn't better than using credit responsibly because consumers have to have some sort of history of responsible credit usage in order to establish solid credit histories and credit scores. If various types of credit accounts are not established and maintained by a consumer, their scores won't be as good as someone with a long history of responsible credit use.

13. Myth: A divorce does not impact credit scores.

Fact: Divorce proceedings don't affect credit reports or credit scores directly. However, the financial issues that are embroiled in the divorce process often involve joint credit accounts, and those very much affect credit history and credit scores.

Accounts are reported for each individual associated with that account, so if one spouse is listed as a joint owner, cosigner or authorized user, he or she must deal with that account prior to the divorce. That means closing the account completely or ensuring that one name is totally removed from the account.

Many divorcing couples are confused by the role of the divorce decree. A divorce decree may specify who is responsible for accounts opened during the marriage, but it doesn't break the contracts with the lenders. If the spouse responsible under the divorce decree is unable or unwilling to pay and the contract has not been changed by the lender, the late payments still will appear on both credit reports and will have a negative impact on credit scores for both individuals.

14. Myth: The three credit reports and credit scores from the three credit bureaus will be the same.

Fact: The opposite is almost a guarantee. It's likely that the credit reports from the three credit bureaus will be slightly different and, therefore, so will the credit scores. There are three primary reasons why this is so:

- Not all accounts will be reported to all three credit-reporting agencies. Since reporting is a voluntary act, not all lenders report to all three.
- Accounts on consumers' credit reports are not always updated at the same time. For example, an account at Experian may be updated in the credit report today, but the same information may not appear in the Equifax report until the following day or on the TransUnion report two days later.
- Because the credit reporting companies' computer systems are different, the credit score formulas can be slightly different to work with a particular system. That difference in the formula can result in a difference in the scores.

15. Myth: Check cards can help credit reports and scores.

Fact: Check cards, more commonly referred to as debit cards, are nothing more than plastic access to a checking account. Since checking accounts aren't recognized as an extension of credit, they don't end up on credit reports.

16. Myth: Moving credit card balances around will help hide any debt.

Fact: It's impossible to hide credit card debt. If someone has 10 credit cards each with \$1,000 balances or five credit cards each with \$2,000 balances, it is still \$10,000 in debt.

17. Myth: The best way to improve credit scores is to pay off all accounts and close them.

Fact: It's actually partly true. Paying off all debts is one of the fastest ways to improve credit scores. Closing accounts, though, can hurt credit scores. One of the most important elements in credit scores is the proportion of total balances to the total credit limits. Paying off debts lowers that proportion, improving credit scores. However, closing accounts eliminates some of

the available credit limits, making the balances appear to be higher compared to the overall limits. For example, a person who has \$15,000 of credit available on multiple credit cards but only has a balance of \$5,000 is only using 30 percent of available credit, which is good. However, if the person closes a \$5,000 credit account because the credit card is not being used, the available credit amount drops to \$10,000 and results in 50 percent of available credit being used — a level that can knock points off of that person's credit score.

18. Myth: Bad credit doesn't impact candidates getting hired.

Fact: Federal law allows potential and current employers to view a modified version of a candidate's credit report for employment purposes, such as hiring and promoting, but the decision to include a credit check is left up to the individual employer. In certain industries, knowing that a candidate has sound credit history is a very important part of the hiring and screening process. The Experian Employment Insight report includes similar information about loans and credit cards that is listed in the credit report. It does not include year of birth, spouse reference, account number or credit score, which are irrelevant to hiring decisions.

19. Myth: If one spouse has excellent credit, the other doesn't need to worry since they can just use other one's score to apply for loans.

Fact: While there is no such thing as a credit score for couples, one spouse's credit could affect the couple's ability to get credit. For instance in cases where one person could not qualify alone, credits reports and scores for both people are considered when couples apply joint accounts or mortgage loan. They might be faced with higher interest rates, fees, or even being denied on these joint accounts because one person has a poor credit history.

20. Myth: Good credit is tied to how much money a consumer has in the bank.

Fact: How much money consumers have in the bank doesn't affect credit scores. A bank account does, however, affect credit scores if a consumer bounces checks and does not pay the money back. If the balance owed to the bank gets turned over to a collection agency, then that information will show up on a credit report.

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