The Ten Greatest Credit Myths

This is one of my most favorite articles that I have written because it addresses so many questions that people have about credit. I love watching the eyes of my clients widen when they find out the truth about some of these most common myths.

You will be hearing some things that will most likely be the opposite of what you currently believe. Keep in mind that credit and credit reports are not widely understood, and even those in the financial and credit industry, often do not have a good understanding. With that in mind, let's get started

Myth 1: Settling or paying off tax liens, collections, late payments or judgments will erase them from your credit reports.

This is simply not true. In fact, by paying off an old collection account, you can actually lower your credit scores. The reason for this is because more recent negative items will hurt your score more than older negative items. If you pay off an old collection account, not only will the collection account remain on your reports as a paid collection, but it will now show a current date, and cost your more points. I am not suggesting that you should not pay off your delinquent accounts, only that you need to understand the consequences so that you can factor that into your decision.

Myth 2: Paying my full credit card balance every month will improve my credit scores.

If the credit system were designed by your financial advisor, this would be a great plan, however, since the system was designed by your creditors, in order to maximize your credit scores, you need to give them what they want to see. What the credit card companies like is for a client to pay only a little more than the minimum payment, on time, every month. Occasionally paying down your balances slightly is ok. This behavior will maximize your credit scores.

Myth 3: Credit repair is illegal.

This is far from the truth. In fact, credit repair is legal for you to do on your own, or hire anyone you choose to do it for you. Repairing your credit is a right protected under the Fair Credit Reporting Act (FCRA).

Myth 4: Consumer Credit Counseling will improve my credit.

Credit counseling programs will only harm your credit. The first thing that will happen as a result of enrolling in a CCCS or credit counseling program, is that your creditors will add the line "Account in CCCS" or "Account paid through credit counseling" to each of their trade lines. This will not affect your score, but does look very negative to lenders. The next thing that seems to always happen is that the credit counseling program will make the payments to your creditors late. Sometimes this is not their fault since they just setup the payment to be on your original due date. However, the credit card companies often adjust your due date, and since nobody, like yourself, is monitoring this, they began making your payments late. This will result in late pays on your credit, in addition to late fees.

Myth 5: Negative items have to stay on my credit for 7 years because that is the law.

This is also false. There is no law that dictates the duration that an item must remain on your credit reports. The only thing that dictates that an item must remain on your credit report is that it can be proven to be 100% true and accurate.

Myth 6: I make a lot of money so I must have excellent credit.

Making a lot of money really has very little to do with your credit directly. What determines your credit is your payment history, account balances, your open accounts, the type of accounts, etc.

Myth 7: I must have excellent credit because I have never been late on a payment.

Your timeliness of payments does make up 35% of your credit scores, but the other 65% is made up of other factors that are not related to making your payments on time. It is important to understand all those factors to maximize your scores.

Myth 8: Your credit reports will be identical from each of the 3 major credit bureaus.

Wrong again! Most, if not all the time, your credit report from each credit bureau, Equifax, Experian, and Transunion, will be different. Not all creditors report to all 3 credit bureaus, so it is perfectly normal to have different items on each report. Also, your scores will not be the same since each credit bureau uses their own scoring model.

Myth 9: Once you are married, you and your spouse share the same credit.

This is completely false. All individuals will always have their own individual credit history. If you have joint accounts, you may share some of the same trade lines, but it is still your credit.

Myth 10: Closing credit card accounts will increase your credit scores.

This one is a big surprise to most people. I am sure at some point you have been told by your mortgage professional to close some of your open account to better qualify for a loan. Once you closed those accounts, you watched in anguish while your scores dipped as much as 100 points or more. Why did this happen? The reason is that one of the largest factors that make up your credit scores is the age of your good-standing accounts. The longer an account has been in good standing, the better it is for your credit scores.

Now that you are armed with this powerful knowledge, you can get on the road to optimizing your credit today.

About the Author

Jon Ochs is the founder/CEO of NCA Credit Repair, one of the most trusted and respected Credit Report Repair companies in the nation. Visit http://www.ncacreditrepair.com for more info on credit and credit repair.