

MORTGAGE LENDING UPDATE

By David Griffin

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Credit Score Myths

I recently ran across a great article entitled "9 Credit Score Myths Do More Harm Than Good" by Teresa Bitler on foxbusiness.com.

"Dispute everything on your report? Freeze your cards in ice? Hmmm ... In today's economy, a good credit score is more valuable than ever, and for many, improving your score has become a financial priority. Turn on the radio, flip on the TV or head to the company water cooler and you'll likely be bombarded with various credit-improving strategies. But not all advice is good advice. Here are nine credit score myths that could actually do more harm than good:

1. Closing out old, inactive accounts will help your score. Your credit score is based, in part (15 percent), on the length of your credit history; and in part (30 percent) on your utilization rate -- your total balances versus the total amount of credit available to you. Canceling old accounts can make your credit history appear shorter and, as a result, actually lower your score, according to Heather Battison, consumer education director for TransUnion. It also reduces the total amount of your available credit, so you'll be utilizing a higher percentage of your credit, which can also affect your score.
2. Opening (but not using) accounts will help your score. To improve their utilization rate and, theoretically, their credit scores, some people open as many accounts as they can. Rod Griffin, director of public education for the credit bureau Experian, says this strategy is more likely to raise eyebrows than your credit score. "Your score is affected by how well you manage the credit you do have over a period of time, not by how many credit cards you have or the available balances."
3. You should avoid using your credit cards at all. Remember the advice that you should stick your credit cards in a bowl of water and freeze them, using them only for emergencies? If you're a financially responsible consumer, that approach could negatively impact your credit score. Bruce W. McClary with ClearPoint Credit Counseling Solutions explains that your score reflects the responsible use of credit. If you're not using your credit, you're not building credit history. He advises using your credit from time to time and then promptly paying off the balance.
4. Dispute letters can clean up your bad credit. Errors on your credit report can and should be disputed, but don't expect to magically erase accurate but negative credit history. Disreputable credit repair firms will advise that if you send enough letters disputing legitimate but negative records on your credit report, eventually the lender will not be able to respond quickly enough and the credit bureau will have to remove the item permanently from your credit report. Griffin says that's not the case. Dispute letters may force the removal of negative items temporarily, but once the lender can prove the record's accuracy, it will reappear on your credit report.
5. Paying off old debts and judgments will help your score. Have a judgment or an account that went to collections? Don't expect to make that negative "disappear" by paying it off. Negative records -- judgments, collections accounts, bankruptcies or late payments -- remain on your credit report for seven to 10 years, regardless of any remedies you've made.
6. Credit inquiries hurt your score. Inquiries alone have little impact on your score. Coupled with a history of bad credit, a hard inquiry, such as an inquiry for credit, could factor negatively into your score, but again, the effect would be minimal. Another myth? Pulling your own credit report, a soft inquiry, lowers your score. In fact, checking your credit report on a regular basis allows you to catch errors that could affect your score and identify those areas that need improvement.
7. Using a credit counseling service lowers your score. Credit counseling services no longer figure into the FICO scoring system, so although your report might indicate you are receiving credit counseling, using those services won't lower your score. It could actually help your score, according to Todd Christensen, director of education at Debt Reduction Services Inc. "You're making your payments on time and paying down your debt, the top two factors in credit scoring," he says. (David here: I'm not too sure about this one. Most lenders I know still treat credit counseling as if it were a Chapter 13 Bankruptcy.)
8. There's a set formula for obtaining good credit. Be suspicious of any blanket statement about what people should or shouldn't be doing to improve their credit scores. "Credit is a very individual thing," says Griffin. "Credit scoring looks at everything and takes it all into account. If you are keeping your balances low and paying your bills on time, you'll have good credit and a good credit score."
9. You can get a perfect score. Don't go to Herculean efforts trying to obtain that elusive 850 -- getting a perfect credit score is nearly impossible. Your credit score is a reflection of your credit risk, and regardless of your credit history, there's always a risk. Doug Minor, author of "Anatomy of Credit Scores," recommends working toward a score of at least 740. (I'd say 720.) "It's more realistic and attainable than 850," he says."

David Griffin has been financing homes in Macon, Warner Robins and all of Middle Georgia since 1983 and is a member of the Mortgage Bankers Association of Georgia, mbag.org. For an archive of past articles visit mbag.org/ML_Update.htm.(10/13/10)