Debunking common credit myths

A healthy credit score can make the difference in qualifying for a low loan rate, becoming a homeowner or landing your dream job.

Individuals are given a credit score based on factors such as loan payment history, amount owed to creditors, and the length of their credit history. Like it or not, creditors – and even employers – will make assumptions about you based on what they read in your credit report.

But when the subject is as complex as credit reports, not everything is correct that you read on the Internet or hear from friends. Here are a few common credit myths:

- Myth: You have to pay to check your credit report.
  Federal law gives you the right to check your credit report for free once a year. Go to annualcreditreport.com.
- Myth: Checking your credit report lowers your score. There are two types of credit inquiries. Applying often for new credit prompts "hard" inquiries that can lower a credit score. A "soft" inquiry, used to check your report for free, has no effect on your score.
- Myth: Paying debt on time is all it takes to maintain a high score. While on-time payments are important, there are many other factors.
- Myth: Making minimum payments is better for your credit score than paying off your balance each month. Hovering near your credit card limit actually hurts your score. Aim for a balance of 30 percent of your limit, or lower. Better yet: pay it off each month.
- Myth: Credit is only important when asking to borrow money. Landlords, service providers, insurance companies and prospective employers are among those who might check your credit.

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- Myth: Paying energy, phone and cable bills helps build credit. In most cases, these companies only report to credit bureaus when something goes wrong, such as collection notices.
- Myth: Moving to a different state will wipe credit clean. Credit doesn't care if you live in Washington or Florida. It follows your Social Security number.
- Myth: It's impossible to correct credit report errors. Incorrect information should be disputed by contacting the reporting company and the information provider. Keep documentation of credit history for use in fighting errors.
- Myth: A late payment disappears from my credit report after three years. Late payments are there for seven years.
- Myth: Using a debit card and responsibly managing personal banking accounts helps build credit.
- Proper use of these tools and services does not show up on credit reports. But using them irresponsibly could hurt your score.
- Myth: Co-borrowing or co-signing a loan won't affect credit. In most cases, both parties are equally responsible for debt. Be sure to understand the loan contract.
- Myth: All types of credit are the same. It helps to have a mixture of installment payments, such as car or mortgage loans, and revolving credit, such as credit cards.
- Myth: Medical collections don't show up on a credit report. Any public record, including medical collections and tax liens, may report against your credit score.

Smart decisions over the long haul are key to a healthy credit score, while a few bad decisions can have a devastating effect.