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Credit Score Urban Legends -- Busted!

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Courtesy of Jeannine Pesce

Nursing Her Credit Score

by Janene Mascarella

When Jeannine Pesce, a 37-year-old mom from Manahawkin, New Jersey, recently decided to quit work and go to nursing school, she was sure it was a smart move toward a secure future -- but uncertain about how this change would affect her credit today. She's planning to buy a home in 2010 and worries that her lack of income will drag down her score.

Pesce isn't the only one scratching her head over credit scores. Lots of false information is swirling around, and you can't move forward with your financial life if you're muddled with misconceptions. Here, we take eight common credit myths and debunked them, dispel them, and blow them away, leaving you with the truth about making the most of your credit score.

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Myth #1: Your Paycheck Can Make or Break Your Score

Pesce's concern about her paycheck (or lack thereof) wreaking havoc on her credit score is a common one -- and it's unfounded. "Income might affect your ability to get a loan, depending on the creditor, but it legally should never affect your credit score," says Curtis Arnold, founder of CardRatings.com and co-author of *The Complete Idiot's Guide to Person-to-Person Lending*. Items like your payment history and how much debt you have are computed into your score, but other personal information -- your gender, your age, your zip code -- can't legally be considered in figuring your credit.

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Myth #2: Checking Your Credit Will Lower Your Score

Merely checking your credit score or your credit report will not affect your score, says Arnold. Thanks to the Fair Credit Reporting Act, you're entitled to one free copy of your credit report a year from each of the three major credit bureaus -- and you can pay for as many subsequent reports as you want without hurting your score. However, if you apply for credit after making multiple inquiries, your score will take a small hit, Arnold says. "Your credit application will show up as a 'hard inquiry' on your credit report," he says. "It's usually not a big deal, long-term, though, as long as you don't apply for credit on a frequent basis."

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Myth #3: Shopping Around for a Loan Will Hurt Your Credit Score

Not anymore. In 1999, the scoring model was changed to end penalties against consumers who shopped around and compared rates within a 30-day window, says Heather Wagenhals, author of *Unlock Your Wealth*, a series on crisis management and financial wellness. Shopping for a specific type of loan is your right, and an underwriter will see that, she says. One warning: if you shop rapidly for major lines of credit -- a credit card one day, a boat loan the next, a mortgage the day after that -- the underwriter will look for a corresponding entry on your report. If there is no corresponding credit line, an underwriter may wonder if you were denied, or if the loan hasn't hit your report yet.

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Myth #4: An Unused Credit Line Will Go Inactive

As a measure to protect against credit fraud, your lender may cease reporting your trade line for lack of activity, Wagenhals says. "Your scoring is based in part by open and active trade lines," she says. "Thirty percent of your score is based on timely payments. If there is no payment due, you may be missing out on a possible one-third of your credit score." It's much better to charge your credit cards only to what you can comfortably pay off each month, Wagenhals says, and to rotate the cards to keep them all open and active.

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Myth #5: Co-Signing on a Loan Won't Affect Your Credit Score

When you co-sign on a loan, you and the primary borrower are equally accountable for repaying it, says Patrick Ritchie, author of *The Credit Road Map*. This debt will appear on your credit report, he says, with the same weight as if it were your debt exclusively. "Consider the payment ramifications," says Ritchie. "If you have co-signed for someone, and he or she is 30 days late on the payment, it will hurt both of your credit scores. In the case of co-signing on credit card, they may pay on time, but if the card is maxed out, the impact on both credit scores can be dramatic."

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Myth #6: It's Impossible to Dispute Mistakes on My File

Not at all. By law, the credit bureaus have 30 days to complete an investigation on your credit file -- all you have to do is request it, says Gregory B. Meyer, community relations manager at Meriwest Credit Union in San Jose, California. "If they cannot determine the validity or accuracy of an item, or if it was determined to be expired or out of date, it's supposed to be removed from your credit report," he says. When you mail your investigation request to the credit bureau, he adds, you must mail copies of the request to the creditor as well.

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Myth #7: After You Say "I Do," Your Credit Scores are Wedded, Too

It's a common misconception that credit scores are united in marriage, says Ken Lin, CEO of Credit Karma, a credit-score management service based in San Francisco. While you may share financial obligations in marriage, your credit scores will remain separate. But you may find that your spouse's credit habits can affect your credit score, Lin says -- with such details as whether you pay bills on time, or how much of the available balance you use on joint credit-card or joint-loan accounts. "If your spouse has had credit problems in the past, make sure he or she is committed to a healthy credit future before you agree to co-signing or opening a joint credit account," Lin says.

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Myth #8: Using a Credit Counseling Service Will Hurt Your Score

"Credit counseling by itself most definitely does not hurt your credit score," says Ken Clark, certified financial planner and author of *The Complete Idiot's Guide to Getting Out of Debt*. "There is no place to report such a thing on the actual credit report, which is the basis for your credit score." This myth endures, Clarks says, due to for-profit debt-settlement agencies that deceptively market themselves as "credit counseling." When these organizations negotiate a repayment plan or debt settlement on your behalf, Clark says, that cause a drop in your credit score: it further demonstrates that you couldn't handle your use of debt wisely.

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