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Debunking Four Common Credit Myths

The terms and rate you are offered on a home loan are very much based on your credit score these days. Your credit score is designed to tell lenders just how risky of a borrower you will be, based on your past history of handling (or not handling) credit. In order to protect your credit and get the best deal on your next mortgage loan, it is a good idea to become credit savvy. A good way to start is by separating the facts from the fiction when it comes to how credit works.

Here is some truth: your credit score is a three-digit number, ranging between 300 and 800 and is a calculation based on several different factors. These include your history of timely or untimely credit payments, your debt total verses the amount of credit you have available, the length of your credit history, the type of credit accounts you have, and the number of inquiries from others about your credit report.

Now here are some myths:
Myth #1: You have just one credit score.
Actually because there are three different credit reporting agencies, Experian, Equifax, and TransUnion, and they each collect their own information about your credit, each agency may give you a slightly different score. Most lenders know this and will check all three and take the average of the scores to determine the type of interest rate to offer you. You can also check all three scores yourself by visiting each of the companies' websites and requesting a copy of your score. Asking about your own score will not hurt your credit.

Myth #2: Getting quotes from several different mortgage companies will damage your credit.
The truth is that as long as you do your shopping around within a short time period, many inquiries on your credit will only be counted as one inquiry. There is some dispute about how long that short time period can be. Some say it is as short as 14 days, others claim all inquiries made within a 45 day period are counted as just one. The point is to set aside some time during two or three weeks and shop around as much as possible and get all the credit checking out of the way. Just one inquiry listed on your credit report in the recent past will not have a large impact on your total score.

Myth #3: Credit bureaus base your score on things like your age, gender, and income.
This simply isn't true. The factors listed above are what determine your credit score. It will not matter haw much or how little money you make in a year. What counts is what percentage of that income is wrapped up in debt compared to how much credit you have available to you. And just FYI, when you get married, you and your spouse will still have separate credit scores, even though any joint account activity will influence both of your scores.

Myth #4: You should dispute any information that brings your score down.
You can, by all means, dispute any information on your credit report that you know to be false. But if you really were late on your house payments for a year, disputing them will not do you any good and will not improve your score. There is no getting around previously poor financial

behavior. The important thing is to look ahead, change your bad habits, and start acting responsibly with credit.

Knowing the difference between credit myth and reality will help you better use and protect your credit. Make sure you investigate with credible sources any claim that someone makes about what will or will not hurt your credit.