# Making Money Count

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## Six Credit Myths

A credit score is a number based on your past credit history used by banks, lenders, landlords, employers and many others to try and predict your future reliability. Your credit score matters, but it's not always clear what hurts or helps your score. Here are six common myths about credit scores and the related truth.

1. **Myth: Having no credit history is the same as good credit.**
FALSE! While having *no* credit history is better than having *bad* credit history, it's not the same as having a solid track record managing credit. You have to use credit to influence your credit score, and it may be tough to establish credit without a credit history and an established relationship with a financial institution.

2. **Myth: You need to carry a balance in order to improve your credit score.**
FALSE! Carrying a balance from month to month does not improve your score, but it will cause you to pay interest. You can establish credit just as well by paying your charges off each billing cycle.

3. **Myth: Your income is used to calculate your credit score.**
FALSE! Your income is not listed on your credit report and isn't used to calculate a credit score. However, a lender may ask for proof of income to verify that you can repay a loan.

4. **Myth: You need to pay to view your credit report.**
FALSE! AnnualCreditReport.com provides a free annual credit report from each of the three credit reporting agencies. The site even has its own jingle (just make sure you're only visiting annualcreditreport.com and not falling for other similar catchy ads that later require you to pay for something).

5. **Myth: Paying off and closing an account can help improve your score.**
Partly FALSE! Paying down your debt can help your credit score, but actually closing the credit account can change your percentage of available credit (amount borrowed/total amount available to be borrowed). Lenders prefer to lend to individuals that are not using much of their credit, and they also like to see long credit histories.

6. **Myth: The amount of money you owe alone determines your credit score.**
FALSE! As mentioned in the previous example, lenders review how much of your total credit you have borrowed as a percentage of what you could borrow. This part of the credit score involves your "utilization ratio", and lower is better. If you are using most of the credit available to you, then lenders may be wary of lending you more money. For example, let's say you have a credit card with a limit of $1000 and you owe $900. If that same card had a credit limit of $2000 and you still owed the same $900, you'd have a lower ratio (which contributes to a higher credit score).

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