

## Rotating News Article

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# Exposing Credit Myths

Credit can be an excellent money management tool when used wisely. The key is to understand the rules of the game. This article will try to give you some money saving tips and debunk some myths about credit.

**Myth:** A fixed rate APR on a credit card is guaranteed to be permanent.

**Truth:** A “fixed” rate does not necessarily mean the rate is permanent. In fact, it only means that the creditor must give you written notice 15 days before a rate change. Some creditors will raise your fixed rate if you are late paying other bills. Check your credit contract to find out other situations that will cause your APR to rise.

**Myth:** If someone steals your credit card you will be held liable for everything they purchase with the card

**Truth:** If you report the loss before the card is used, you can't be held responsible for any unauthorized charges. If a thief uses your card before you report it missing, the most you'll owe for unauthorized charges is \$50 per card.

**Myth:** Checking your credit report will lower your credit score.

**Truth:** Checking your credit report will not lower your credit score. A new law allows you to order one free credit report from each of the three major credit reporting agencies once a year. In order to keep an eye out for identity theft, it might be best to order one from each agency every four months instead of ordering all three reports at the same time.

You can order your free report by going to [annualcreditreport.com](http://annualcreditreport.com) or by calling 1-877-322-8228. Beware of websites that may look and sound similar. Also, be aware that you may be offered additional products or services while on this authorized website. However, you are not required to make a purchase to receive a free annual credit report from each of the three agencies. You do need to call the toll free number or visit the authorized website. Do not order directly from the companies or you will be charged. (I found the toll free number to be a quick, easy, and a solicit-free way to order a report.)

**Myth:** Shopping around for a mortgage or car loan will hurt your credit score.

**Truth:** Credit score programs can distinguish between a search for a single loan and a search for many new credit lines. Score programs count multiple auto or mortgage inquiries in any 14-day period as just one inquiry. In addition, the score ignores all mortgage and auto inquiries made in the 30 days prior to scoring. So, if you find a loan within 30 days, the inquiries won't affect your score while you're rate shopping.

**Myth:** You only have one credit score.

**Truth:** Credit bureau scores are often called "FICO scores" because most credit bureau scores used in the U.S. are produced from software developed by Fair Isaac and Company. FICO scores are provided to lenders by the three major credit reporting agents: Equifax, Experian, and TransUnion.

FICO scores have different names at each of the three credit reporting agencies: Equifax has the Beacon Score; Experian has the Fair Isaac Risk Model; and TransUnion has the Empirca Score. The FICO score from each credit reporting agency considers only the data in your credit report at that agency. If your current scores from the three credit reporting agencies are different, it's probably because the information those agencies have on you differs.

**Myth:** It's better to put extra money in a savings account or invest it, than to pay off credit card debt.

**Truth:** Paying off credit card debt and remaining debt free can be the best investment you make. Eliminating credit card interest payments is one of the first steps toward a sound financial future.

**Myth:** Consolidation loans or home equity loans are always the best way to get out of debt.

**Truth:** Shop carefully. Consolidation loans can come with high interest rates. You will probably have to pay a high interest rate and/or other finance charges if your credit score is low.

Be wary of eliminating unsecured credit card debt at the cost of equity in your home. If you agree to a loan that's based on the equity you have in your home, you may be putting your most valuable asset at risk. Some exploitative lenders target borrowers with low incomes or poor credit for home equity loans that come with hidden charges and steep charges.

**Other Facts to Consider**

The best way to use credit cards is to pay the balance in full each month. Grace periods (interest free time) disappear if you carry a balance. So if you are not paying your balance in full every month the interest meter is always running. In most cases there are no grace periods for cash advances. Carrying balances on your credit cards that are 50% or more of your line of credit will negatively impact your credit score.

If credit payment are taking 20% or more of your take-home pay then you are over-extended. If this is happening it is time to stop spending and work out a budget to pay off your creditors.

For more information or if you have a question, call Linda Bowman, Family and Consumer Sciences Extension Faculty, The University of Florida/IFAS-Santa Rosa County Extension, at 850-623-3868, between the hours of 8:00 am and 4:30 pm weekdays. Hearing-impaired individuals may call Santa Rosa County Emergency Management Service at 983-5373 (TDD).

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