5 Myths About Credit Scores

Teresa Meek, August 2020

If you're like most Americans, you have credit cards – and credit card debt. The average household carries over $16,000 in credit card debt, amounting to $747 billion nationwide, according to Nerdwallet. You may think you understand how credit works, but what you don't know can hurt your credit score. Here are five common credit myths that can block your path to financial well-being.

Myth No. 1: Checking Your Credit Score Counts Against You

The consequences of running a credit check depends on its purpose and your own background. According to FICO, a single new credit application may not affect your score at all, or it could raise it by less than five points if you have a short credit history.

Checking your own score to see where you stand is a soft inquiry that won't hurt you a bit. Credit card companies are increasingly providing customers with free credit scores. You can also get a free credit report through AnnualCreditReport.com. Keep in mind that a credit report isn't the same as a FICO credit score, which is what many lenders look at when considering your application.

Ready access to your FICO score is a useful tool. Holders of a KeyBank consumer credit card enjoy that access as a benefit of online and mobile banking.

Myth No. 2: Carrying a Balance Improves Your Score

Carrying a debt load will not improve your credit score, and with an average interest rate of 15 percent, according to CreditCards.com, credit cards are an expensive way to fund purchases and an easy way to get in over your head. Nevertheless, only 35 percent of credit card users do not carry debt, reports Money.

Owning a credit card helps you establish credit, and paying it off each month puts you in good financial standing. Though you're only required to pay the minimum balance, it's best to pay the full amount and avoid accumulating interest that can weigh you down later.

Myth No. 3: Closing an Account Means You're Financially Responsible

Actually, closing an account could hurt your credit score. Your FICO score is calculated in part by how much available credit you actually use, known as your credit utilization ratio. For a good score, you should keep your ratio under 30 percent. If you close an account and accrue a larger balance on the other card, your ratio could balloon.

If your card doesn't require an annual fee, it's best to keep it. That doesn't mean you have to use it – you can even cut it up if you want to. Just don't close the account.

Myth No. 4: Maxing Out Your Card Isn't a Problem as Long as You Pay the Balance on Time

Even if you always pay your balance on time, maxing out on your credit card will catapult your credit utilization ratio to 100 percent, lowering your credit score. It makes credit card companies nervous, despite the fact that they allowed you to do it, and some will close your account. If you're maxed out, you might have trouble repaying the debt on time.

Myth No. 5: Credit Only Refers to Credit Cards

A credit card helps you build a track record, but people with the highest scores have a mix of credit cards and other types of loans, such as mortgages, car loans and student loans. Paying off several types of debt demonstrates financial acumen and improves your score. It also shows lenders you can handle the type of credit they extend.

Using credit responsibly improves your score and brightens your financial future. To get on the right path, embrace reality and let go of damaging credit myths.

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