Credit Score Myths and Misconceptions

For lenders and other financial institutions, your credit score is one of the most important pieces of information about you. In addition to determining interest rates, your score can control whether you ultimately qualify for a loan at all. If only for this reason, it's important to know what goes into your credit score. But, there are a lot of myths out there, so here's the score on which behaviors and factors are influential.

Myth #1: Overdrafts Lower Your Credit Score

If you're like most Americans, you run through your own individual version of daily grind at breakneck speed. Most of the time it goes well and you manage to pick the kids up on time, pack a healthy lunch for work, remember where you left your keys and pay your bills before they're due. Sometimes, however, you leave your wallet in the other purse, get your wife a birthday card for your anniversary, and hope cereal for dinner will be well received. Have you bounced a check because you were moving so quickly?

When these mistakes occur, you may end up overdrawing your checking account and subsequently incurring a bank fee. It's frustrating (and costly!), but luckily, insufficient funds (NSF) or an overdraft will not have an immediate effect on your credit score. That said, your credit score will suffer if, for example, a collections account is opened as a result of an overdraft.

Myth #2: Your Income Affects Your Credit Score

Your income is not specifically factored into your score. It's true: You could have better credit than Kobe Bryant, Lady Gaga or the Queen of England. As your employer does not report details of your employment to the credit bureaus, your salary and wages are generally not factored into your credit score. It may seem a little obvious, but the information in your credit report is strictly about how you manage credit and other financial obligations. With that said, your income may be taken into account because, for example, your debt-to-income ratio can affect your credit score.

For example: A family of modest or even underprivileged means that pays their bills on time and uses credit responsibly may have a higher credit score than a millionaire with maxed-out credit cards and a history of late payments.

Myth #3: Making Multiple Payments in a Single Billing Cycle Will Raise Your Credit Score

Making multiple credit card or other loan payments in one billing cycle has definite benefits. It can boost your progress and ultimately it can even shorten the life of the loan (saving you money in the long run). Over time, as you whittle away your debt and increase the ratio of the amount of credit available vs. credit used, your credit score can improve. While your score will likely not improve simply by making multiple payments to an account in one billing cycle, you might try not to use more than 30 percent of your available credit and watch what happens to your score.