



Extension News Column

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To: Mary Beth Smetzer, community news editor, News-Miner, 459-7546 (wk), 452-7917 (fax), mismetzer@newsminer.com, and people@newsminer.com
From: Roxie Dinstel
Re: Pinching Pennies to run **Monday, Jan. 2**, on page A-3
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The year has just started and many of us are looking at ways to improve our finances as our new year's resolution. We all know how important our credit score is to our financial life. It affects not only your credit cards, but also what you pay for insurance, rent and a host of other financial transactions.

How can I improve my credit score? This is one of the most frequent questions that I get from folks. Many of us have the wrong ideas about what will help or hurt our credit scores. Here are five of the most common beliefs that are plain false.

1. Checking my own credit history will affect my credit score.

It is true that inquiries can affect your credit score — but only the inquiries that mean you applied for credit in the past two years. Those are known as “hard inquiries.” When you get a copy of your own credit history, you may see other types of inquiries. Companies that received your contact information for marketing purposes, such as sending you a preapproved credit card offer, will be listed. If you recently obtained a copy of your credit history, you'll see that noted as well. But you are the only person who sees those two types of inquiries, and they have no impact on your credit score or on lending decisions.

2. Cancelling a credit card I don't use is always a smart thing.

Cancelling a credit card you no longer use may be a good money management decision, if having the card tempts you to spend more. But cancelling it could hurt your credit score. One of the factors that affects your credit score is your utilization ratio — the amount of your available credit limits that you are using. Let's say you have two credit cards, each with a \$5,000 limit. You have a \$1,000 balance on each one. You're using 20 percent of your available credit. Then you transfer the balance from card A to card B, and cancel card A. You're still carrying a balance of \$2,000, but your credit limit is \$5,000. Your utilization ratio went up to 40 percent, and that's not a good thing.

3. Carrying a balance on my credit card is better for my score than paying it off each month.

Your credit history doesn't tell lenders whether you pay off your credit card each month. They only know what your balance was on the date that the credit card submitted the information to the credit-reporting agency. Having regular activity on the card (making purchases and paying on time each month) has a positive effect on your credit history and score.

4. One of my loans was turned over to collections. If I pay it, that negative information will disappear from my credit record.

If you were late on a bill or if it went to collections, that information will still be true even if you finally pay the debt in full. Those late payments and collections can remain on your credit history for seven years. Having the debt reported as paid is better than showing that you still owe the money, but it won't remove the negative information from your credit record.

5. I use a debit card. If I choose "credit" when I use it, it becomes a credit card and helps me build a credit history.

Using a debit card won't help you build a credit history. Choosing "credit" when you use a debit card does not change the type of card you have. You're still using your own money, not borrowing money. Choosing debit or credit determines how the transaction is processed (directly with your bank or through the same processing system used by credit cards) and whether you enter your PIN (personal identification number).

The most important thing you can do to improve your credit score is to pay your bills on time each month starting today. As the negative information on your credit history gets older, it becomes less important. Even though those negative pieces of information can remain on your credit history for years, you could see a significant improvement in your score after paying your bills on time for a year or two.

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