Credit Misconceptions

Every week, I review people's credit in order to assess their ability to be approved for financing. These people seek financing for a wide range of purposes, such as paying off students loans, credit cards or other high-interest debts; settling separations and divorces; purchasing boats, quads or campers; and buying property in Alberta, BC, Saskatchewan, Ontario and sometimes even the U.S.

Regardless of their purpose, these well-meaning people often have glitches in their credit that presents obstacles in their application for financing. These glitches are almost always the result of misconceptions about how credit really works, and they can force people to accept terms and conditions for financing that are undesirable. Therefore, I would like to clear up some of these misconceptions below, in hopes that this information helps people manage their credit more effectively.

Misconception	**Fact**
A. It doesn't matter what my credit card balances are, as long as I make my minimum payments every month	If the balance on any line of credit or credit card is greater than 75% of the limit, your credit score will be negatively affected
B. If I ignore a bill that I'm responsible for because I'm angry with the supplier, it won't have any affect on my credit	Once a supplier decides that you are unwilling to pay a bill, they will involve a collections company. At this point, they will simply post a collection to your credit report without you even knowing about it. This will have a negative impact on your credit score until it's rectified.
C. If I rectify any issues on my credit report (such as collections owing and incorrect personal data), they will automatically be corrected	There are only 2 companies in Canada that report on credit: Equifax and TransUnion. Although Equifax is the most widely used, they are both large bureaucracies that require persistent follow-up. It is up to each individual to ensure that their credit report properly reflects any issues that have been resolved. http://www.equifax.com/home/en_ca
D. I can avoid making minimum monthly payments on my credit cards as long as I make large, lump sum payments every couple of months	Maintaining a good credit score involves regular payment activity each and every month. Anything less than this will be counted as a late payment, which will have a negative impact on your credit score.

Misconception	**Fact**
E. While having some credit card debt is okay, having none is best	Lenders use existing debt to determine suitability for financing. If someone has no consumer debt whatsoever, lenders cannot properly assess how an individual manages liabilities and will often decline someone for financing. Therefore, it's best to have 2 credit cards that are managed well, every single month.
F. When I apply for financing of any kind, my credit score is not affected unless I proceed with that financing	Anytime someone runs your credit report, your credit score takes a 'soft hit' deduction of 2-4 points. If your credit report is run multiple times for financing in a short period of time, the deduction to your score becomes exponential, as this is a red flag for lenders. Bigger deductions to your credit score or 'hard hits' are the result of credit mismanagement, some of which are discussed above.
G. When applying for financing, credit challenges can be overcome by good income	Credit management is a huge part of how lenders assess people for financing, regardless of income.