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Liz Pulliam Weston

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The Basics

4 credit-scoring myths

Looking to buy a house? Make sure you know what will truly hurt and help your case with lenders -- and don't fall for the misinformation mortgage lenders can spread.

By [Liz Pulliam Weston](#)

There's a lot of misinformation being propagated about what does and doesn't hurt your credit score, and much of it is coming from sources who should know better: mortgage lenders.

Now, let me say first that I've worked with several excellent lenders who really knew their stuff and kept up to date, not only on loan trends but on the information that's available about credit scoring. That's important, because the FICO credit score, in its various permutations, is used in three-quarters of all mortgage lending.

But what I heard from several lenders responding to my recent column, "[8 big mortgage mistakes and how to avoid them](#)," was the kind of bad advice that can cost you money and keep you from getting the best loans.

So if your mortgage broker gives you any of the following advice, take a tip from me: Find a new broker.

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Closing accounts can help your credit score

No, no, no. For the umpteenth time: Closing accounts can never help your credit score, and may hurt it.

Related Sites

- [TransUnion](#)
- [Experian](#)

Every time I write this, I get more e-mail from people who say their mortgage lenders told them exactly the opposite. It's true that having too many open accounts can hurt your score. But once you've opened the accounts, you've

[Equifax](#) done the damage. You can't repair it by shutting the account, and you may actually make things worse.
[myFICO.com](#)

The credit score looks at the difference between your available credit and what you're using. Shut down accounts, and your total available credit shrinks, making your balances loom larger, which typically hurts your score.

The score also tracks the length of your credit history. Shutting older accounts can also make your credit history look younger than it actually is, which can hurt your score.

Rather than closing accounts, pay down your credit card debt. That's something that actually can and usually will improve your score.

Checking your FICO score can hurt your credit

Unfortunately, I heard this one from a mortgage broker who is otherwise pretty smart. He was confused about which type of inquiries hurt your score and which don't.

Applying for new credit is generally what hurts your score. Ordering a copy of your own credit report or credit score doesn't count. Those mass inquiries made by credit card lenders, who are trying to decide whether to send you an offer for a pre-approved card, also aren't going to hurt you, either -- unless you actually take them up on their offers.

If you want to minimize the damage from credit inquiries, make sure that when you shop for a mortgage you do so in a fairly short period of time. The FICO score treats multiple inquiries in a 14-day period as just one inquiry and ignores all inquiries made within 30 days prior to the day the score is computed.

For most people, one inquiry will generally knock no more than 5 points off a score (and scores typically run from 300 to 850, so that's not a big percentage).

Credit counseling will hurt your score as much as a bankruptcy

The current FICO formula ignores any reference to credit counseling that may be in your file. That's been true for the last three years, after researchers at Fair, Isaac, the company that created the FICO scoring system, noticed that people getting credit counseling didn't default on their debts any more often than anyone else.

Your ability to get a loan could still be hurt by credit counseling, however. Your current lenders may report you as late, because you're not paying what

you originally owed or because your credit counselor isn't sending your payments in on time. Late payments do hurt your credit score.

Lenders consider other factors besides credit scores in making their decisions, as well. The factors they look at can vary widely. Most want to know your income, for example. Some want to know how much savings you have or whether you're a homeowner. Some will find credit counseling disturbing, while others see it as a good sign.

The mortgage lenders who don't like credit counseling generally treat its enrollees the same as if they had filed for Chapter 13 bankruptcy. Chapter 13 is the kind of bankruptcy that requires a repayment plan and is looked at somewhat more favorably than Chapter 7, which allows you to erase many of your debts. You might still be able to qualify for a loan from one of these lenders, although your interest rates will almost certainly be higher than if you had perfect credit.

If you plan to get a mortgage soon, and you're not already behind on your debts, it's probably smart to steer clear of credit counseling. If you're already in trouble, however, a good credit counseling agency might be able to help you get back on track.

Your FICO isn't the only score you need to check

This came from lenders who thought the FICO score is offered by only one of the three credit bureaus: Equifax.

In reality, all three of the bureaus offer FICO credit scores using the formula developed by Fair, Isaac, but they each give the scores a different name. At [Equifax](#), the FICO is known as the Beacon credit score. At [TransUnion](#), it's called Empirica. At [Experian](#), it goes by the unwieldy title of "Experian/Fair, Isaac Risk Model."

Complicating matters further is that you'll probably have three different scores from the three different bureaus, largely because the bureaus don't all share the same data. One bureau may list more accounts for you than another, for example, and the differences (in types of accounts, payment histories, credit limits and balances) will be reflected in the score that bureau computes for you.

Because of those differences, it does make sense to pull and examine your credit reports from all three bureaus before you apply for a big loan like a mortgage. Many mortgage lenders take the middle score from the three bureaus when making their decisions, so fixing errors in all three reports before you shop for a loan is smart.

You can get all three of your FICO scores from myFico.com.

But the ways you improve your credit score are the same in any case: Correct errors. Pay your bills on time. Pay down your debt. And apply for credit sparingly.

Liz Pulliam Weston's column appears every Monday and Thursday, exclusively on MSN Money. She also answers reader questions in the [Your Money message board](#).

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