11 Myths About Credit Cards

Description

Have you always thought that making one late payment on your credit card isn’t a big deal (it’s only one, right?). Well, the truth is that even a single missed payment can put a dent in your credit score, despite what your forgetful roommate told you!

Credit card myths like this can wreak havoc on your finances, which is why identifying and staying clear of them is so crucial.

Luckily, I’ve saved you the trouble by assembling some of the worst offenders and put them in their place! Learn from them, and your bank account will thank you.

1. Getting a card credit will hurt your credit score

A credit card, if used responsibly, is one of the best tools for building or improving your credit score. By making regular purchases using your credit card and paying off the balance promptly, you can go a long way in enhancing your credit standing.

2. Closing a credit card account with unpaid debts can improve your credit score

False. Shutting down a credit card account with unpaid debt doesn’t magically erase those transactions from history and let you start from scratch. These detrimental details can stay on your credit report for up to seven years.

3. Balance transfers save you money

Not always. Sometimes, the balance transfer fee can be steep enough that the arrangement isn't financially feasible. Low or zero percent interest rates on balance transfer cards also have a short window of opportunity, after which the default (often exceedingly high) rate kicks in.

4. Carrying a balance on your credit card improves your credit score

Nope. Simply maintaining a balance on your card won't result in any upgrade to your credit. However, keeping your card active with sporadic purchases is a wise move, as it shows lenders that you're using credit. A monthly or quarterly transaction will suffice.

5. You must pay the fees stated in your credit card contract

Surprisingly, credit card companies may be willing to work with you to reduce your fees – but it's up to you to initiate the conversation. Be reasonable, friendly, and courteous when negotiating, and you might land a great deal.

6. One missed payment won't reduce your credit score

Wrong! Even a single missed payment can inflict significant damage to your credit score. This is especially true if you previously possessed an impeccable payment history – the higher your credit score was, to begin with, the harder it will fall. And the more late the payment, the more substantial the impact on your credit score

7. You can build credit quickly once you get a credit card

Never. Building a solid credit profile is a gradual process. It could take months or years and depends on your circumstances. Your credit score reflects your ability to manage bill payments and other credit products you may currently use, such as personal loans and lines of credit. A credit card is only one piece of the puzzle. And while a credit card — if used correctly — can help you build credit, there are additional ways to build credit without a credit card.

8. Your APR will never increase

Not necessarily. Your APR may very well rise over time. It may be due to a change in your card issuer's policy, in which case your powerless to do anything about it. Other reasons for APR hikes include an expired introductory rate or a decline in your credit standing.

9. Getting multiple credit cards won't affect your credit score

It will. Every time you apply for a credit card, the card issuer will perform a hard credit check on you. Essentially, this means they will access your credit report to assess your creditworthiness (the risk of lending to you). Racking up too many hard credit checks in a short time adversely affects your credit score, as lenders will perceive you as being desperate for credit and more likely to default.

10. You can spend as much as you want as long as you pay off the balance on time

Not without unpleasant consequences. Excessive credit usage can put a severe dent in your credit score, as this is one of the factors credit bureaus assess when setting your credit score. Exceeding your credit limit is not prudent as well, as you may incur over-limit fees and a costly penalty APR should you fail to pay on time.

11. Credit cards are less safe than debit cards

Not necessarily. Credit cards typically come equipped with superior security features and liability protection compared with debit cards. Since credit cards are essentially thief magnets, card issuers have no choice but to respond accordingly or risk losing customers. The federal government agrees: if you’re the victim of fraudulent transactions, federal law caps your payment liability at $50.

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