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5 Credit Myths to Ditch in 2013

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When one year ends and another begins, it's hard not to look ahead and strive to do better. And when it comes to credit, we're definitely creatures of habit. We resolve to spend less, but open store credit cards anyway. We vow to pay off debt, but only put down the minimum due. We aim to turn our credit around and boost our scores — and while we might think we have a handle on how the system works, we might actually have some misconceptions about credit that can keep our goals out of reach.

So what should you do? We asked Credit.com expert Barry Paperno to highlight five popular credit myths to ditch in order to help everyone get a better handle on their finances.

1. Having too much available credit on credit cards can hurt your score. Some people even think a lender "might deny your credit application if they think you have 'too much' credit available — high credit limits, many credit cards, or a combination — with the rationale being that if a consumer were to use all of that available credit, she may not be able to make the payments on the loan/card being applied for," says Paperno. This was true before the era of credit scoring, but not today. "There is nothing in the scoring formulas that penalize a consumer for having too much available credit," he says. If anything, it might prove your credit worthiness, as more available credit and lower balances tend to signify better behavior.

2. Income is included in a credit score. Contrary to popular belief, credit reporting agencies aren't interested in your income. In fact, that number won't even go on your report. That's not to say that income doesn't matter—it does if you want to lower your debt or credit utilization — but salary, or any other metric that could define your "value," like investments, net worth or assets, haven't been included in credit scores for the past 20 years. That's because lenders are more interested in your creditworthiness (whether you'll pay a bill) than your capacity to pay it.

3. Once married, a couple's credit history is combined at the credit bureau, so that they have a joint credit report and joint credit score. You might share the kitchen, car and laundry detergent, but you'll never share a credit report with your spouse. "Consumers have individual credit files and scores only, whether married or not," Paperno says. It's easy to think otherwise, considering how couples take on each other's problems, and how the almighty score has started to play a role in dating, given the recession and its financial strain on households. Now, in the case of joint accounts, where both people are responsible for paying the debt, your spouse's credit behavior will also be reflected on your credit report for that account — for better or worse. But your score and report are still your own, and that's why it's important to manage your credit carefully, especially when it comes to shared debts. It's equally important to keep the lines of communication open about finances in your relationship.

4. Carrying balances on credit cards from month to month is better for your score than paying them off in full. "People think you have to have a balance reporting to show the account is active," says Paperno. But "while activity is good, there are other ways, such as the last reporting date of the account, to measure it. All running a balance will get you is interest charges." If you haven't done so already, now might be a good time to set up automatic bill pay so that you pay off every bill in full (or as much as possible) each month so you don't miss a payment or risk accruing more interest.

5. A credit repair agency can get any negative information off of your credit report. First of all, if late payments are listed accurately on your credit report, no one can legally remove them, no matter what they promise. (That's why turning to a credit repair organization will not solve the problem.) If the information is accurate, there's not much you can do, other than make sure to make all payments on time going forward. If the information is inaccurate, however, what you can do is file a dispute with the credit reporting agency, asking them to correct inaccurate information or remove the negative info that doesn't belong to you, which credit agencies are obligated to do within 30 days under the Fair Credit Reporting Act.

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