They Don't Have All the Answers

The Motley Fool

By Dayana Yochim

Are "They" Right?
I had heard (one of those things that "they" say) that checking your own credit report lowers your credit score. Is that true and will the score be hit three times if ordering all three free reports? I appreciate your time. — Sincerely, David

Hi, David. As is often the case, "they" aren't quite right about the impact on your credit score when checking your own fsile. (However, feel free to follow "their" advice in matters of the heart and health — "an apple a day..." and all that stands up pretty well to scrutiny.)

When you take a peek at your own file, it's counted as a "soft inquiry" as opposed to a "hard inquiry," which takes place when a lender asks about your creditworthiness. A hard inquiry, it's estimated, can cause a five-point (give or take a point or two) drop in your score. The damage — if any — reverses itself pretty quickly. A soft inquiry may not even show up on your report. (By the way, a record of inquiring entities is part of your credit report.)

Here's more on financial background checks — which to avoid and which don't matter — and tips on controlling the number of "hits" on your file.

The APR Shuffle
I recently acquired two credit cards with 0% APR on balance transfers for a year. I intend to use the full limit of these two credit cards to pay off my home equity loan, saving about $1,200 by doing so. I know this will affect my credit score, but by how much? Appreciate your insight on this. — Regards, Ben

I admire your creative financial thinking, but the nervous Nelly in me is dwelling on the many ways this plan can go awry. The biggest "oopsy daisy" would be if that sweet deal suddenly turns sour. While that year-long 0% APR on balance transfers is a very tempting offer, particularly when it could save you more than a grand in interest on your home equity loan, 0% can become 12% or 15.99% or 23% in no time.

Creditors can legally hike your interest rate (promotional or not) at any time with just a few weeks notice. It's what's called the "universal default clause," and lenders will lean on that small-print passage if they see you applying for too much credit, paying another lender's bill late, or otherwise doing something that they deem financially threatening. Should it happen to you, that $1,200 savings could turn into $1,200 of additional debt instead. If you follow the law to the letter and are a Goody Two-

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shoes about all of your bills, the risk may be small to you, particularly given the potential savings. As for the effect on your credit record, only the secret calculator used by the keepers of creditland know what kind of hit your score might take during these financial gymnastics. Thirty percent of your credit score is based on your debt-to-available-credit ratio. So the extent of any damage to your credit score depends on how much other credit you have extended to you — and any other debts you're carrying. Ideally, lenders like your debt-to-available-credit ratio to be less than 30%. So do a little math before opening up another line of credit or acquiring significantly more debt.

When you change your credit profile (by borrowing more money or paying off a portion of debt, for instance), it can take a few weeks or a month for you to see the results on your report. I suggest keeping a close eye on the interest rates and deciding if a short-term hit to your score is that big of a deal in your financial life.

New Bride, New Credit

I recently got married and am still listed on my parents' MasterCard. They carry a high balance, and I am wondering how that affects my credit score. My husband and I are trying to get our credit scores looking their best so that when we find a house our history will be in order. What are your thoughts? We both carry American Express cards in our own names so it's not like I don't have credit elsewhere.... Thanks for listening! — Jennifer

Congratulations on your nuptials. And an even heartier toast to you and your beau for prettying up your credit to court future mortgage lenders.

It sounds like you're an "authorized user," not a co-account holder, on your parents' credit card. Being an authorized user does not make you responsible for those debts, and therefore the card will not turn up on your credit report. (Many divorcees are happy to make this discovery.) Since you already have credit in your name, unless you actually use your parents' card, you might want to have them remove you as an authorized user. This can usually be done with a simple phone call to the handy 800 number on the back of the card.

Adding points to your score can take a while, so starting now is smart. If you haven't already checked out the credit area at Fool.com, I encourage you to take a peek. This article — "How Lenders Keep Score" — shows you what matters most to bankers. You'll notice that on-time bill payment is a biggie. So if nothing else, make sure you put the check in the mail on time, every time. And good luck to you and your husband on the house-buying venture.

Debt-Be-Gone

I currently owe just over $9,000 in credit card debt, spread out over three cards. I've been working with a credit counseling service for a while and paying off my debt through them. They've been a big help as I was over $15,000 to start with and they've given me stellar service whenever I've called

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their customer support line for help or to adjust payments on those cards.
I'm currently on track to pay off my credit card debt completely by December 2006. I'm more than happy with that target date, but I wonder if I should look into applying for a low APR credit card (lower than what I have now through the credit counseling agency), consolidating my debt onto that card and shav(ing) a month or three from the payoff period. — Thanks, Kevin

Kudos, Kevin, on looking for ways to accelerate your debt pay-off plan. Hopefully your credit counselor is also pleased with your determination. Depending on how the program works, you may or may not be able to take over payments from the counseling service. (Do you remember signing any sort of contract?) Asking doesn't hurt, so go ahead and inquire. If it's not allowed, have them accelerate payments if you're able to devote more money per month to pay down the debt. It sounds like they are amenable to such changes. I'm sure the lenders on the receiving end of your checks would be.

If your current credit card accounts were terminated when you went into the program, you should probably start rebuilding your credit record. Again, talk to your credit counselor and see if/when/how you can apply for more credit. (Some credit counseling programs forbid participants to apply for additional credit when enrolled.) Best of luck to you and congratulations on getting that debt paid down.

Dayana Yochim cannot answer every credit question she receives, but ones accompanied by a fiver have a pretty good shot at catching her eye. The Motley Fool's disclosure policy reveals that Dayana cannot ask readers for fivers. But nice