By KAREN BLUMENTHAL

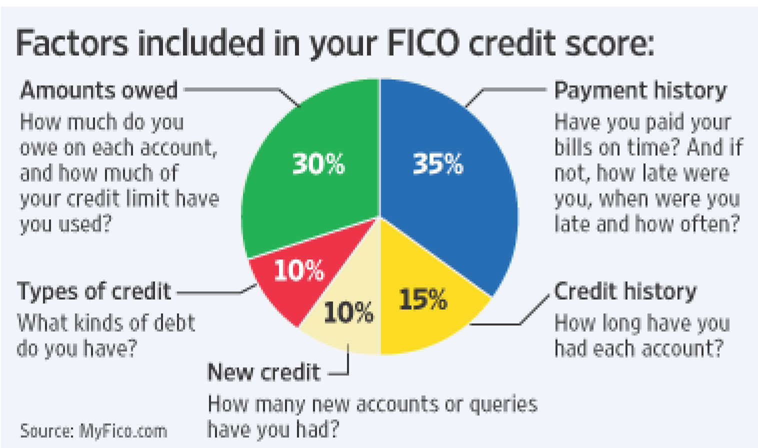
Are you keeping score?

Credit scores have been getting a lot of attention lately, as lenders tighten credit standards and contend with new legislation that has, among other things, reined in how credit-card issuers can raise rates.

Meanwhile, several firms, preying on our insecurities, are pushing credit scores and credit-score-tracking services for a monthly fee.

For all the attention they generate, though, credit scores are largely misunderstood. For instance, your precise score matters only when you're in need of new debt, like a home, auto or education loan or a new credit card, which should be a fairly rare occurrence.

You don't have just one score, but many. Your FICO score, the one developed by Fair Isaac Corp. that runs from a low of 300 to a high of 850, will vary depending on which credit bureau is reporting it and the kind of lender that requested it.



So the score that costs you $15.95 at MyFico.com may not be the score your lender sees. Beyond that, the three credit bureaus— Equifax, Experian and Trans Union— sell their own proprietary scores.

Confused about what to believe? Here are some common myths about credit scores:

My credit score is a good reflection of my financial smarts and good behavior.

Not really. Your score doesn't reflect your income, employment history or your assets, which should be a part of your overall financial picture. It also doesn't show whether you pay your rent or utilities on time. As a result, a credit score is less like a report card and more like an SAT score—your results on a particular date that seek to predict your future credit success or failure.

I pay my card off every month, so I must be a low credit risk.

True, your financial habits are excellent. But they won't affect your score. That's because the credit bureaus don't have a clue whether you pay your bill in full or carry a balance on your cards each month. All they know is the amount you owed on your most recent statement.

Instead, the crucial fact is how much available credit you have used. Steve Ely, president of personal-information solutions at Equifax, says you should keep your credit use to less than half your credit limit to minimize the impact on your score.

Taking advantage of reward cards shouldn't affect my creditworthiness.

Unfortunately, about 30% of your FICO score is based on "credit utilization," a broad term that includes how much you've used of each credit limit, how much you've borrowed as a percentage of your total available credit and even how big the dollar balances actually are.

If you're a rewards junkie like I am, charging groceries, charitable contributions and just about everything else to get points, you may be jeopardizing your score. Based on reports I paid for, my Trans Union score was 11 points lower than my Equifax score, apparently because of my vacation-enhanced balance, even though I used less than 10% of my available credit.

Luckily, there's an easy solution: Cut back your credit-card use for two or three months before you plan to seek a car loan or mortgage so that your balances will be more modest.

Scored Straight

Credit scores, while crucial to one's financial health, are widely misunderstood. Some oft-forgotten points to consider:

- They don't reflect your whole financial picture, but a snapshot of your debt at a point in time.
- It doesn't matter whether you carry a balance, but it does matter if you pay on time.
- The score you buy isn't necessarily the score lenders see.
- You don't need to apply for new credit for credit inquiries to show up on your report.

I was late on a payment, but the debt is now paid off. So I'm good, right?

Afraid not. The single most important factor in your score, accounting for 35% of the total, is whether you have paid your bills on time. One late payment will ding your score for up to a year, very late payments can hurt you for two or three years, and collections and bankruptcies can sting for up to seven years.

What counts as late? In theory,one day. But because credit-card companies know that people move, get sick or misplace their bills, they commonly wait to report your late payment to credit bureaus until about 30 days have passed, or you have missed two due dates. (You will likely be assessed a late fee right away, however.)

If you have missed a payment, pay it as soon as possible and consider calling and doing the honorable thing: groveling. Many companies will waive or reduce fees the first time a good customer makes a mistake, and they may even agree to withhold reporting the infraction to the credit bureau.

Information stays on my credit report for no more then seven years.

That's largely true for bad news, including late payments. But good news hangs around—and pays dividends—a lot longer. My credit report reflects the 30-year history of the credit card I got back in college.

In addition, closed accounts in good standing will stay on your record for a decade, says Barry Paperno, FICO consumer-operations manager. Both old and closed accounts can help your score because the length of your credit history is another, if smaller, piece of the formula.

Your credit card behavior affects your overall credit score.

Preserving your credit history is one reason that Kenneth Lin, CEO of Creditkarma.com, recommends that you don't formally close an account but let the issuer close it for lack of activity. The longer the account stays open, he says, the more you'll add to your credit history and the longer you'll benefit from the additional available credit.

I haven't gotten a loan in a while, which should boost the "new credit" part of my score.

You don't have to get new credit to show a so-called hard inquiry on your credit report. If you have opened a new checking account, the bank may have checked your score. Last year, I bought a car and the dealer, unbeknownst to me, checked my credit. I never applied for a loan, but that one inquiry knocked 15 points off my Equifax score—and that's typical.

For that reason, Curtis Arnold, founder of Cardratings.com, suggests you ask up front if a bank, insurer or car dealer plans to check your credit record. Luckily, shopping around for a car or education loan or mortgage counts only as one inquiry as long as you do it within a few weeks. Otherwise, multiple inquiries may knock your score back for a year.

That said, when you check your score, when your current card company keeps tabs on your credit or when someone pre-approves you for a credit-card—all so-called soft inquiries—your score won't be affected.

The score I pay for or get for free is my real score.

Most free scores are not the FICO scores that lenders request. You can buy FICO scores from Equifax and Trans Union—but not Experian—on MyFico.com for $15.95 each, but even then, they may not be the exact score the lender actually sees. You can, however, see each of your three credit reports—which include all the activity that is used to determine your score, but not the score itself—for free once a year by going to AnnualCreditReport.com. Because your scores aren't likely to vary by much, ongoing tracking services are usually unnecessary. Using a mortgage credit report however is much more relevant and accurate but costs more.

I should aspire to a score above 800.

Sadly, a score of 800 or more—the holy grail for "high achievers" on online FICO forums—won't make you thinner, smarter, richer or more attractive to lenders or anyone else. True, every 20 points in your score can mean a slightly lower mortgage rate or better car loan, but only up to the mid-700s.

That means it's worthwhile to take steps to improve a score in the 600s or low 700s, and in the high 700s, you'll have plenty of room for score fluctuation. Beyond that, a higher score is meaningless.

For more information feel free to contact me at:

mark@fixmybrokencredit.com