Nine big credit card myths

By Liz Pulliam Weston

There's no excuse when you fall for certain myths, but the legends that grow up around credit cards aren't quite as easy for the average person to research and refute. Credit card issuers can be pretty closelipped about their practices, and even those who proclaim themselves experts in the field can get it wrong.

So I talked to spokespeople from Visa, MasterCard, American Express and Discover to get the scoop on their policies, and with Fair Isaac, creators of the FICO credit score, for details on how cards really affect your score.

The myths and the reality

Myth No. 1: Your credit card account isn't opened until you activate it using the issuer's toll-free number.

Several readers have changed their minds about opening new credit cards after they've applied, then asked if they could undo the damage to their credit scores by not calling to activate the card.

Sorry, but the ding to your credit scores – typically five points or less – happens as soon as the issuer pulls your credit reports, which is usually within seconds of receiving your application. The account shows up as active on your credit reports shortly after the card is approved.

You do need to call the activation number, though, if you ever want to use the card. That number is typically listed on the removable sticker on the front of your card when it arrives in the mail.

Myth No. 2: You can stop unsolicited credit card offers by sending them back in the postage-paid envelopes.

Judging by my e-mail, some of you have developed a hobby trying to irritate credit card companies. You write "take me off your mailing list" repeatedly over the unsolicited applications they send you, then stuff the paperwork into the postage-paid envelope -- sometimes adding other junk mail to increase the volume and cost the issuer more in postage.

Sorry, but all your efforts are for naught. Yes, you might cost the credit card company a few pennies, but it would cost them far more to track down your name on their mailing lists and remove it, so your envelope just winds up in the garbage.

If you want to cut the number of unsolicited credit card offers you receive, you need to get off the mailing lists *before* they're compiled. Here's how:

- Sign up with the credit card bureaus' opt-out service. This service removes you from the marketing lists they sell to credit card issuers and can be reached at 1-888-5-OPT-OUT or OptOutPrescreen.com. You'll need to provide your Social Security number and a few other pieces of identifying information.
- Opt out of "information sharing" every chance you get. Anytime you use your credit card, make a donation or sign up for a new service, your information could be sold to a credit card marketer. Ethical companies give you a chance to opt out. Take it.
- Follow up with those who sell your data. Sometimes you won't be able to tell who sold you out; other times, it's obvious. I raised hell with the Greater Los Angeles Zoo Association after I bought a family membership and promptly received an application for a GLAZA-themed card.

Myth No. 3: Merchants may require identification, such as a driver's license, when you pay with a credit card.

Merchants' agreements with Visa, MasterCard, American Express and Discover specifically forbid them from requiring identification. Your signature is supposed to be enough.

Furthermore, merchants' contracts with Visa and MasterCard are supposed to prevent them from even *asking* for ID. American Express and Discover don't prohibit asking but strongly discourage it.

Card companies regularly look for ways to get more of your money. Here's how to tell whether your issuer wears a black hat or white one.

Merchants typically ask for ID because they're trying to reduce their own fraud costs. But if a clerk memorizes or writes down vital information from your driver's license -- your address or date of birth, for example -- you're the one who could be at greater risk of identity theft.

Myth No. 4: You can deter identity theft by writing "Ask for ID" instead of your signature on the back.

See above. You'll certain deter *use* of your card, because merchants aren't supposed to accept one that's not signed on the back, and that could affect you as much as any thief.

Myth No. 5: No-limit credit cards allow you to buy whatever you want.

Most credit cards come with credit limits, but some cards advertise having "no preset spending limits." With high-end Visa cards, for example, customers are allowed to exceed their credit limits; with traditional American Express charge cards (the green, gold, platinum and black versions), there is supposedly no preset limit at all.

Except that all cards have limits, said Curtis Arnold, the founder of CardRatings.com and author of "How you can profit from credit cards."

"No-preset-spending-limit cards are more marketing hype than anything," Arnold said. "These cards do have a credit limit that is typically based on your income and spending patterns."

At American Express, the actual limit on your charge card -- the kind that's supposed to be paid in full every month -- can vary based on your financial circumstances, your credit history and your record as a customer, explained Desiree Fish, an American Express spokeswoman.

If, for example, you're a good customer who typically spends $3,000 to $5,000 and you want to charge a $50,000 luxury car to your card, you'd be smart to call Amex first to make sure the transaction would be approved.

If, on the other hand, you're in possession of an American Express Centurion Card, a black version that usually isn't even offered to folks who charge less than $250,000 a year, you probably needn't worry about getting approval for the same transaction -- unless "your people" forgot to pay last month's bill.

Myth No. 6: If you pay your credit cards in full and on time, you don't need to worry about your cards' effect on your scores.

Paying your balances in full is good for your wallet, and paying on time is good for your credit scores. But you can still mess up your credit even if you're diligent in doing both.

How? By using up too much of your credit limit. Your credit scores are incredibly sensitive to how much of your available credit you use, especially on your credit cards.

And the balance used for these calculations is typically the balance that shows on your most recent credit statement. So if you've charged $9,000 on a card with a $10,000 limit, your scores will reflect the fact that you're using 90% of your available credit, even if you pay off the balance the day you get the bill. Such a misstep can knock dozens of points off your scores.

How to fix this? Ask for higher limits, spread your purchases among several cards or make two payments each month -- one just before the account's statement closing date and another just before the due date. The first payment will reduce the balance that is reported to the credit bureaus and is used to calculate your credit scores. The second payment ensures your account won't be marked late, since many issuers require some kind of payment between the statement closing date and the due date, even if a payment was made earlier in the billing cycle.

Myth No. 7: High credit card limits are bad for your credit scores.

I've heard this one repeated by folks who should know better, including mortgage brokers and other lending professionals.

Here's a tip: If you're told the reason your credit scores aren't higher is because you have "too much available credit," that pretty much means you have great scores. Typically the only reason you'd hear this "negative" is because there's nothing else wrong with your credit.

You certainly shouldn't ask a credit card company to lower your credit limits or shut down cards, since either action could hurt your credit scores, unless a lender specifically requires you to do so as a condition of getting a loan. Even then, you should try to keep your oldest and highest-limit cards open.

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But you also shouldn't run out and open a bunch of new credit card accounts without considering the consequences. Each new account application can ding your scores and represents another set of rates, due dates and terms you'll have to track. Apply for credit sparingly, and don't worry if your issuer rewards your good credit habits with a higher limit. It knows you can probably handle it.

Myth No. 8: A credit card company can't change my rate unless I mess up.

Credit card issuers lately have been vigorously disabusing customers of this notion, as I wrote in "The credit card party is officially over." Many borrowers have seen their rates double or triple even though they haven't been late with a payment or suffered any other credit setbacks.

Credit card companies can alter virtually any rate or term with just 15 days' notice. Their freedom to do so may be ending, though. Federal regulators have proposed banning rate increases on existing balances, except in limited circumstances, such as when a borrower skips a payment. Meanwhile, some in Congress have proposed more restrictions and want issuers to give more notice of any changes. Stay tuned.

Myth No. 9: Rewards cards are pretty much the same.

This myth takes different forms, including "the best rebate you can get is about 1%" or "you have to pay an annual fee to get a rewards card" or "the rewards aren't worth the effort to redeem."

It's all bunk, said Arnold, of CardRatings.com. Consumers who shop around will find big differences among rewards cards. Today, the best cash-back rewards cards have no annual fee, and you should expect a rebate in excess of 1%.

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