

## Maintain a Good Credit Rating

### Key Points

- [Why Credit Is Important](#)
- [Missing Payments](#)
- [How Credit Reporting Works](#)
- [Signs of Credit Overextension](#)
- [Credit Reporting Agencies](#)
- [Be Credit-Smart](#)
- [Points to Remember](#)

Installment debt, in itself, is not a bad thing. It enables us to make major purchases that would be nearly impossible to finance up-front. The problem is, in this consumer society, we're bombarded with advertisements for literally thousands of "must-have" products. The result is that while our parents tended to pay with cash and buy only what they could afford, we have the "buy now, pay later" mentality.

Unfortunately, our massive appetite for credit may be eroding our financial security, as more Americans continue to rely on borrowed money to maintain their existing lifestyles.

### Why Credit Is Important

It is important to establish credit if you plan to buy a home or automobile some day. Credit cards also provide a means of reserving a hotel room or obtaining cash while you're traveling.

If you are a college student, recent graduate, or a nonworking spouse, you can begin to establish credit by opening a savings or checking account in your own name. You can then apply for a department store and/or oil company credit card. Having someone else co-sign a loan for you will also get you started.

Creating a positive credit history for yourself requires using your credit card intelligently. Following are some dos and don'ts to help you manage credit effectively:

- DO NOT charge more than you can easily pay off in a month or two.
- DO NOT be fooled into paying just the low minimum amount listed on a bill. Credit card issuers make money on interest; there's nothing they'd like more than to have you stretch out payments.
- DO consistently pay your bills by the due date.
- DO use credit for larger, durable purchases you really need, rather than non-durables, such as restaurant meals that are better paid in cash.

### Missing Payments

When you miss a payment, the information immediately goes into your credit report and affects your credit rating. If you're judged a poor credit risk, you may be refused a home mortgage or rejected for an apartment rental. In addition, a prospective employer looking for clues to your character may dismiss your job application if your credit report reflects an inability to manage

your finances. In most states, an auto insurer may put you into its high-risk group and charge you 50% to 100% more if your credit record has been seriously blemished within the last five years. Many property insurers also review credit histories before they issue policies.

### How Credit Reporting Works

Credit reporting agencies, also known as credit bureaus, gather detailed information about how consumers use credit. Businesses that grant credit regularly supply credit information to credit bureaus. Credit bureaus then compile this information into credit reports, which are sold to banks, credit card companies, retailers, and others who grant credit.

Your credit report helps others decide if you are a good credit risk. This information should be supplied only to those parties who have a legitimate interest in your credit affairs, including prospective employers, landlords, or insurance underwriters, as well as others who grant credit. The Fair Credit Reporting Act (FCRA), the federal statute that regulates credit bureaus, requires anyone who acquires your credit report to use it in a confidential manner.

The following information is most likely to appear in your credit report:

- Your name, address, social security number, and marital status. Your employer's name and address, and an estimate of your income may also be included.
- A list of parties who have requested your credit history in the last six months.
- A list of the charge cards and mortgages you have, how long you've had them, and their repayment terms.
- The maximum you're allowed to charge on each account; what you currently owe and when you last paid; how much is paid by the due date; the latest you've ever paid; and how many times you've been delinquent.
- Past accounts, paid in full, but are now closed.
- Repossessions, charge-offs for bills never paid, liens, bankruptcies, foreclosures, and court judgments against you for money owed.
- Who owes the debt -- you alone, you and a joint borrower, or you as cosigner. (Debts that you co-sign become part of your credit history, the same as debts you incur yourself.)
- Bill disputes.

Negative information can be kept in your file only for a limited time. Under the law, delinquent payments can be reported for no more than 7 years and bankruptcies for no longer than 10 years.

### Signs of Credit Overextension

1. You don't know how much you owe.
2. You borrow to buy items you used to purchase with cash.
3. You have to juggle other bills just to pay the minimum charges on your cards each month.
4. Each monthly credit balance is higher than the last, and you keep applying for more credit, using the cash advances to pay bills.
5. You pay bills using money intended for other needs.
6. Creditors are sending overdue notices.
7. You have no savings or emergency funds to cover three to six months of living

expenses.

### **Free Credit Reports**

Under federal law, you are entitled to receive a free credit report from each of the three national credit reporting companies (Equifax, Experian, and TransUnion) once every 12 months. To get yours, visit:

- **[annualcreditreport.com](http://annualcreditreport.com)**

### **Be Credit-Smart**

Your credit history requires maintenance, just like other areas of your life. Even if you pay your debts on time, don't assume that your credit rating is flawless. Mistakes do occur.

The FCRA entitles you to review information in your credit file. If you have been denied credit, the company denying credit must let you know and give you the name and address of the credit agency making the report. Once you have this information, you can send a letter to the agency and you will receive the information in your credit file, at no cost, within 30 days.

It's a good idea to obtain a copy of your credit report to check it for accuracy. A new law entitles all consumers in the United States to one free online credit report every 12 months from each credit reporting agency. To do so, log on to [annualcreditreport.com](http://annualcreditreport.com). (Keep in mind that other Web sites claiming to offer "free" credit reports may charge you for another product or service if you accept a "free" report.) If you wish to dispute any information in your file, simply write the agency and ask them to verify it. Under the law, they are required to do so within a "reasonable time," usually 30 days. If the agency cannot verify the information, it must be deleted from your file.

### **Points to Remember**

1. Installment credit, in itself, is not a bad thing; it can enable you to make major purchases that would otherwise be difficult to finance.
2. To establish a credit history, open a checking or savings account, then apply for an oil company or retail store credit card. Use your cards sparingly, charging only what you can pay off in a month or two, and make your payments by the due date.
3. Don't be fooled into paying just the minimum balances. If you do, you'll stretch your payments over months, even years, and incur interest charges in the process.
4. Missed or late payments will damage your credit rating, which can affect your ability to obtain a home mortgage or rental apartment, auto or property insurance, and maybe even a job.
5. Monitor your credit rating periodically to determine that all information is reported accurately.

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