

Getting and Keeping a Good Credit Score: It's Critical!



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A GOOD CREDIT SCORE is your doorway to life's purchases — a home and car, of course, but also the credit you need to acquire most of things you buy on a daily basis, in a store or online. Good credit not only provides access to borrowing, it can get you better loans and terms from lenders. So it is critical to take steps to building and retaining a good credit score.

Your credit score is determined by your credit history, your record of paying your bills and specifically, your payments of loans, including credit cards. Your history is tracked by FICO (Fair Isaac Corporation) software, and your score is reported by the three major reporting agencies: Experian, Equifax and TransUnion.

HOW DO LENDERS USE CREDIT SCORES?

Credit scores range from 300 to 850. Banks issuing loans and credit cards look at different thresholds within that range to determine if and how they'll work with you:

- A score of 700 or better will be looked on positively and will make you eligible for the most favorable terms from lenders.
- A score between 620 and 700 could require you to pay a premium, typically a higher interest rate, when obtaining a loan or credit.
- If your score is under 620, you are likely to have a difficult time getting credit.

WHAT COUNTS AGAINST MY SCORE?

Your credit will be negatively impacted by a history of late payments, particularly in your recent past — that is, within the last year or two. But your score will also suffer if you don't have enough good credit. An unsubstantial credit history isn't sufficient evidence of your reliability to lenders. So it is important to get and use credit, and of course, to pay those credit cards and loans off according to the terms in your agreements.

Too many inquiries also serve to reduce your score. An inquiry from a lender into your credit status shows up each time you apply for credit, and too many inquiries indicate you're having a difficult time obtaining credit and are frequently getting turned down.

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It might not seem fair, but errors on your credit report also damage your score. They cloud lenders' judgment.

HOW DO STUDENT LOANS IMPACT MY SCORE?

It is, of course, critical to make your student loan payments on time. If you are having trouble, there are loan rehabilitation programs that help you stay on track — and it is advisable to do whatever you need to do to remain current as opposed to falling behind.

Even when you're keeping up, a large student loan balance could indicate that you have an unsuitable debt-to-income ratio — that is, too much debt for your income. It implies that your budget may be stretched too thin. Again, there are ways to address the problem, loan repayment programs with different terms that can help your debt-to-income ratio, like allowing you to make small payments in the beginning and larger payments over time as your income grows, or a longer term with increasingly smaller payments. However, it is important to pay attention to how different terms affect the total amount of your payments, as some terms substantially increase the interest you pay over the life of the loan.

HOW SHOULD I MANAGE MY CREDIT CARDS TO GET AND KEEP A GOOD CREDIT SCORE?

How you manage your credit cards will have a substantial impact on your credit score, good or bad. Because credit cards are typically easy to get and use, many people find themselves incurring debt that they can't afford to pay off. A few suggestions for getting and using your cards to keep you and your credit score in positive territory:

- Rule number one is to know the terms of the credit cards you're considering before you sign up so you can evaluate which card makes the most sense. Your APR (Annual Percentage Rate) is the cost of borrowing, a key figure that can have a significant impact on the amount you actually pay for using the card.
- Once you know the APR, ask more questions:
 - Is the interest rate fixed or variable?
 - What are the different interest rates for purchases, balance transfers and other card uses?
 - Are there annual or other fees?

Answers to those questions will help you determine how and when you use that card. For example, if you plan to pay the card off each month, having no annual fee may be more important than a low interest rate because you won't be incurring interest.

If you are turned down for a credit card, you have the right to know the reason. If it is your credit score, you are entitled to a free copy of the report that was used in the decision. If you discover errors on your report, you can dispute the card issuer's decision as well as the information on your report.

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Few people could live on cash. You have to have good credit to be able to function in today's world. Getting and keeping a high credit score is one of your most important assets. Your financial advisor can help you in your effort to establish and maintain good credit.

For more information or to schedule a meeting, contact me at MRingler@hbkswealth.com or by phone at 716-672-7800.

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