

Maintain a Good Credit Rating

For better or for worse, the American way of financial life relies on debt as a way of solidifying a desired lifestyle. Therefore, it is important to establish a good credit history if you intend on making more substantial, debt-financed purchases in the future.

Getting Started: Why Credit Is Important

Establishing a solid credit history is important if you plan to make a major purchase, such as a car or a house. Credit cards also provide a means of reserving a hotel room or making purchases online. 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 or other credit card issued by a retailer. Having someone else cosign a loan for you will also get you started.

Building a positive credit history for yourself requires that you use your credit card intelligently. Following are some tips to consider:

- Avoid charging more than you can easily pay off in a month or two.
- Always pay more than just the low monthly minimum listed on a bill. Credit card issuers make money on interest; there's nothing they would like more than to have you stretch out payments.
- Make a point to pay your bills by the due date.
- Use credit for larger, durable purchases you really need rather than nondurables, 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. 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 have had them and their repayment terms.
- The maximum you are allowed to charge on each account, what you currently owe and when you last paid, how much was paid by the due date; the latest you have ever paid and how many times you have been delinquent with payments.

- Past accounts, paid in full, but that 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 cosign 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 seven years and bankruptcies for no longer than ten years.

Signs of Credit Overextension

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

Be Credit-Smart

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

That's why it is a good idea to obtain a copy of your credit report to check it for accuracy. The law entitles all consumers in the United States to one free online credit report every 12 months from each of the three major credit reporting agencies--Equifax, Experian and TransUnion. To simplify the process, simply use the website, [AnnualCreditReport](#). 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.

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