

You Better Keep Score, Your Lender Is!

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Borrowing money today requires impressing a hard-to-please lender. But even if borrowing loosens up a bit, you still need to do everything necessary to keep your credit score high. What does that mean for ordinary Americans? It means you shouldn't be applying for new credit or refinancing for awhile. So instead of bemoaning your tougher chances of getting a loan for a home or a car, use the current environment to raise your credit score so you will be better positioned six months to a year from now.

You'll often hear that credit scores of 700 and up will get you best customer status with lenders. That is history. For the lowest rates and best terms, you need to get your credit score above 750, with the top score being 850, so keep that target in mind.

Your top priority? Never be late! Late payment is the most critical item to impact your credit score. If you miss a payment, get it taken care of prior to the next billing cycle because 60 days late is even worse. Electronic bill payment will allow you to save on postage while guaranteeing on-time.

Yet credit utilization, essentially the amount of credit you're actually using relative to your credit limit, is a much bigger deal simply because high balances are so prevalent right now. From the lender's perspective, high balances mixed with a tough economy means a higher risk of default among customers.

So what's a good target utilization rate for all your revolving credit accounts? Never more than 50% of your credit limit, and if you want the top score, get it down to 20%.

One more time, get those balances down. Get all your non-deductible debt under 30% of your credit line in each account. Go after your balances with the highest interest rates first, and once you hit 30% keep trying and get those balances down further.

Once you're paid off, don't close the account. In the world of credit scoring closing accounts is a lousy idea. Lenders want to see a long record of credit management, and longtime accounts that you haven't touched in years may actually help your score because it shows you have some restraint, and also gives you an overall lower utilization rate. Currently lenders are closing accounts that are inactive, so it is a good idea to make a charge to any open account every few months, especially accounts that have a long history.

Keep an eye on your credit reports. Remember that you have the right to get all three of your credit reports -- from Experian, TransUnion and Equifax -- once a year for free. You can do so by ordering them at www.annualcreditreport.com. Don't order all three of them at the same time. Stagger them out by getting one every four months to get a continuous picture of your credit. Check for errors, about a third of people find errors. If you find an error get it resolved before your need to apply for a loan. Your credit report may also show if you are the victim of identity theft. Oh, and by the way, that cute jingle about "free credit reports"; they are not free. Just go to the site above and you'll be fine.

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Ask the CFP®

What is a Medical Power of Attorney?



Charles Buck CFP®

A Power of Attorney is a legal document to act in case of your incapacity. A Medical POA specifically allows someone else to act relating to your health care. That is, if you are in an accident, or suffer a disease or disorder that may leave you unable to articulate your own wishes, a medical power of attorney form allows you to choose in advance who will represent your interests. If you do not have a medical power of attorney, in the event of incapacity your loved ones may be forced to seek a court order to appoint somebody, usually deemed a "guardian", who will be authorized to oversee your medical care. Everyone should have this document just in case.

You may realize this document is needed for an aging parent. But, if your child is over 18 years of age, you have no rights to access or discuss their medical data without their approval or legal process.