



CWR Monthly

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We all need to borrow money on occasion, particularly, when the item that we need to purchase is beyond what we have been able to save for. Items such as a new home, a car, a major home improvement, braces for our children, or starting a new business are a list of a few things that you may encounter in your lifetime that require you to borrow money to pay for it.

The interest rate that you are able to borrow the money becomes an important factor. The Fair Isaac Credit Organization (FICO) has devised a mathematical credit scoring system to determine your level of credit worthiness. The mathematical function is provided to credit reporting agencies that in turn assess your credit worthiness based your overall credit condition. The FICO scores range from 300 to 850. This information is then provided to lenders to determine the rate of interest that they are willing to loan you the money.

Do you know how they arrive at your FICO score? The answer may surprise you. Your credit score is determined under the following weighting system:

- 35% Payment History
- 30% Outstanding Debt
- 15% Credit History
- 10% Credit Mix
- 10% New Credit

Quite simply, the higher your credit score, the lower the interest rate, lenders are willing to loan you the money you need. To get the best possible rate of interest for the money you need to borrow requires keeping your credit scores at their highest levels. The following are some suggestions on ways to improve your credit score to decrease the rate of interest you may be charged when you might to need to borrow money for those items you cannot afford to pay for in cash:

- 1. Always, Always pay your bills on time.** Late payments and collections can have serious consequences on your credit score. As you can see from the weighting system above, payment history is the largest factor in determining your credit score.
- 2. Do not apply for credit too frequently.** Applying for credit too frequently is a major characteristic of high credit risk groups. Every time you do request a loan and the lender pulls your credit report, your credit score is generally reduced by a few points. To a lender it represents the old adage of “robbing Peter to pay Paul”. A classic example of this is the flood of credit card offers that come in the mail offering an introductory 0% interest to transfer higher interest rate cards to this card. Most consumers who fall into the trap of doing this fail to read the small print of consequences should you not pay the minimum or are late in making a payment.
- 3. Pay your Credit Cards off in full every month or as a last resort keep your credit card balances low.** The rule of thumb is to keep your credit card balances at or below 25% of your credit limits. “Maxing out”

your credit cards will have a severely negative effect on your credit score.

4. Review your credit report and credit score at least once per year and fix any mistakes you find on your credit report with the major credit bureaus. Under federal law you are entitled to a free credit report from the three major credit reporting agencies once per year. The three reporting agencies are:

- Equifax
- Experian
- TransUnion

You can get this free credit report by going to www.annualcreditreport.com. You don't have to get your credit report from all three reporting agencies at the same time. You can space them out periodically through the year to ensure that you have the most up to date information on your credit file. For example, you could get a free credit report from Equifax in January every year, one from Experian in May every year and one from TransUnion in September. This would allow you to receive an update on your credit report equally through the year and allow you to correct any errors you may find. Be aware that it takes time to fix any errors, so this systematic approach would provide a great tool to verify repairs have been made to your credit report.

5. Don't close credit card accounts that you have paid off. It does not benefit you to close the credit card account, because closed or unclosed it remains as a part of your credit history which represents 15% of your credit score. Credit bureaus reward loyalty based on the length of your credit history which includes the age of your oldest accounts as well as the average age of all your accounts.

While this is not an exhaustive list of things you can do to improve your credit score, it focuses on the critical areas that make up your credit report. Not only will it provide some pointers on how to improve your score, but, most importantly it will guide you in keeping on top of the information that credit reporting agencies have in your credit file and can assist you in correcting any mistakes that should not be there, as well as, alert you to the fact when someone may be trying to steal your identity.

Next month we will turn our focus on the upcoming tax season and address some last minute tips to prepare you for your 2007 tax reporting.

Til next time,

Charlie

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