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# Understanding and Improving Your Credit Score

Your credit score has a huge impact on some of the biggest aspects of your adult life. You'll likely need a decent score if you want to rent, lease or finance a car, open a credit card account, and of course, buy a home. To avoid making costly mistakes that harm your credit, you have to first understand how the process works.

When lenders and credit issuers evaluate an application, they usually want both your credit report and credit score. The score is a mathematical calculation based on the information found on your credit report. The score represents how much of a credit risk you may be to lenders. You have probably heard your credit score referred to as your FICO score, because the software used to calculate it was developed by Fair, Isaac, and Company, or FICO. All the major credit reporting companies use FICO scores, but sometimes different sets of information on their reports. FICO scores range from 300 (the highest risk) to 850 (the lowest risk), and that score depends on many factors. The major factors are the following:

✔ **Bill payment history.** If you consistently pay your bills on time, that will be reflected in a higher, less-risky score. But if you've been late in payments, had debt sent to collections, filed for bankruptcy, etc., that will factor into a lower, higher-risk score.

✔ **Your outstanding debt.** This is your total debt, including mortgage, car loans, student loans, credit cards, home-equity lines of credit, and any other type of loan reported to a credit agency. And while it may seem like lower balances will always result in better scores, a very important factor is how much available credit you don't use. Those who use credit sparingly — about 10% of allowed and no more than 30% — will have

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## Do You Have Too Much Debt?

Various rules of thumb exist to help determine when debt levels are excessive. The problem with rules of thumb, however, is they don't take into account your unique circumstances. Look for these signs that your debt level may be getting too high:

- **You have no money left over at the end of the month.** If you have nothing left to save after paying your bills every month, your debt may be too high.
- **You've reached your maximum credit limit.** If you've maxed out your credit card limits or are considering obtaining new cards for additional credit, your debt may be getting out of hand.
- **You're only making minimum payments.** Minimum payments on credit card debt are so low, it can take decades to pay off the debt.
- **You don't have an emergency fund.** Ideally, you should set aside three to six months' worth of living expenses in case of emergencies, such as a job loss or major home or car repair. ❍❍❍

## Credit Score

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the highest credit scores.

✔ **How long you've had a credit history.** The longer you have had and used credit, the higher your score. Even better is if you have established long-term credit with the same set of lenders.

✔ **Different types of credit.** If you have a mix of fixed-payment loans and revolving credit, you will have a higher score to reflect your variety of credit.

✔ **Hard credit pulls.** If you have applied for credit several times in a short period of time, that will signal to lenders you may be a risky option. This risk results in a lower FICO score. However, multiple applications for a specific type of credit in a short time frame does not have the same negative effect.

Now that you know what your credit score is based on, it is easier to understand why those factors are important to lenders. Applicants with credit scores of 720 and higher receive the best deals. If your score is below that, there are ways to improve it:

1 Review your credit report to stay updated and catch any mistakes. Your score is based on information on your credit report, so any errors on the report could be costly for you even if you actually have a good credit history. Get copies of your report from the three main reporting agencies (Experian, TransUnion, and Equifax) and check each for mistakes. You are entitled to one free report from each company every year.

2 Pay all your bills on time. Check to see if your credit report shows any late notices. If you have an otherwise good credit rating, you might be able to get the lender to remove the notice.

3 Reduce your credit utilization rate. Your score is higher when your debt is lower as a percentage of your available credit. Pay down whatever you can and stop using credit for large purchases. If you cannot pay it down right away, ask your lender to increase your available credit. This way, your outstanding debt will be a lower percentage of available credit…but you will need to resist the temptation to draw on any of that newly available credit. Make sure you never use more than 50% of available credit.

4 Keep credit card accounts open. This may seem counterintuitive, because once you've paid off a balance you probably want the satisfaction of closing it out. But when you close an account, you no longer have that available credit to count toward your utilization percentage. If you have more than five credit cards, close the newest ones so your long-term credit relationship stays in the report.

5 Consider installment loans if you only have revolving credit. Fixed-payment loans like a car loan or mortgage will increase the variety of credit in your report, and you will be rewarded in your FICO score.

6 Avoid asking for more credit as much as possible. Inquiries about more debt will show up in your credit file like hard pulls and will lower your credit score.

Your credit score can have a significant impact on the cost of any debt you incur. ❍❍❍

## Raising Financially Responsible Children

Raising children who are financially wise is a skill developed over time. Here are some key strategies to help with these life lessons:

***Money isn't free, it has to be earned.*** When children earn money for chores or other tasks they have completed, it teaches them that money can be earned by hard work. This begins the process of teaching them money management. The key here is to be consistent. Learning to wait until they have money saved before they make a purchase is one of life's important lessons.

***Help them save when they receive or earn money.*** Help them to learn that saving a portion of money they are given or money that they earn is common for those who are financially successful, and that it's more common than they may realize.

***Teenagers need a hands-on approach.*** Teenagers need to see how adult finances actually work, which helps them to understand the cycle of Earning Income > Budgeting > Paying Bills > Saving for the Future > Dreams Realized.

A good place to start is to show them part of your recent goals and budgets so they understand what you're working towards, along with the money coming in and the money going out. Help them understand by explaining the money that you set aside for short-term and long-term savings. Even simple things we take for granted need to be taught, like paying bills online and how to fill out a check properly.

Understanding debt is equally important to understanding savings. Teens need to understand borrowing money costs money and the timeframe it takes to pay that money back, along with how they will earn the money they will need. These aren't lessons learned in one day- rather they are learned through experience, over time. ❍❍❍

# Which Is Better? Saving or Paying Down Debt?

Debt can be dangerous to your financial health. Thus, is it better to save or pay down your debt first?

The answer depends on a lot of things that are unique to each individual, such as your age, how much you've already saved, what rate of interest you're paying, and more. A review of the basics of financial planning is a good way to approach the subject. Here we outline how you should use income not dedicated to day-to-day expenses, in order of priority.

## First Priority: Insurance

One of the best routes to financial ruin is to not have adequate insurance, so your first priority should be to have the correct kinds of policies in the right amounts that protect you and your family.

If you're young and unmarried, this means having basic health insurance. Beyond that, if you have a family, you need life insurance as well as short- and long-term disability insurance.

In each case, you're looking to provide yourself or your survivors with a replacement for income you and they count on. The bottom line: if you have debt, make the minimum payments until you're properly insured and you have the next two priorities covered as well.

## Second Priority: An Emergency Fund

Even if you don't have a family, you need to protect yourself against a job loss or major unexpected expense. The rule of thumb is to create an emergency savings fund equal to three to six months of your income. Not only does this give you breathing room from hardships, it also affords you the flexibility to move in connection with a job change you might want to make.

You should make creating an emergency savings fund a priority. If you can't take care of priorities one and two at the same time you pay for basic necessities, like groceries and gasoline, you're living beyond your means and need to cut back on your spending.

## Third Priority: Retirement Savings

Finally, before you even think about making more than the minimum payments toward your debts, it's imperative that you start saving for retirement as soon as possible. Time is both the best ally and worst enemy of the saver.

Start saving too late, and it's possible that you'll need a rate of return you can only achieve in your dreams to accumulate enough for a worry-free retirement. On the other hand, even small amounts — as little as $25 a month — put away early enough can grow to sizable amounts by the time you're ready to retire.

With these three priorities covered, it's time to consider making extra payments to tackle your debt.

## Guidelines for Debt Reduction

There are a number of factors to consider when you're ready to start accelerating the pace at which you pay down debt:

✔ **Start with the highest-interest-rate debt.** Instead of paying more on every one of your debts, concentrate on the one that charges the highest interest rate. In general, these will be store credit cards, followed by bank credit cards like Visa and MasterCard. Use all your spare cash flow to pay down one at a time.

✔ **Is it tax deductible?** Debt that you can write off against your taxes is generally considered good debt. In effect, the tax deduction reduces the interest rate by your marginal tax rate. In most cases, this means home mortgage interest.

✔ **What rate of return can you expect?** The most important consideration is whether you can earn more by investing your money than the interest rate you're being charged on your debt. If you can earn more in the financial markets than your interest rate, you should invest your money instead of paying off debt. If not, it's worth it to pay off debt.

✔ **How long until you retire?** This is a key consideration when you're thinking of paying off your mortgage, especially if it's near the end of its term. At that point, the tax benefits are minimal because most of your payments consist of principal, not interest. In addition, if you're 50 or older, the monthly cash flow you'd free up could be devoted to the extra $5,000 a year you can contribute pretax to an IRA or 401(k) plan. On the other hand, if you have 10 years or more to go on your mortgage, it could be smarter to keep making the minimum payments to retain the tax advantages. As an alternative, consider the advantages of refinancing the remaining balance. At a reduced principal amount and with mortgage interest rates near historic lows, you may be able to reduce your monthly payments.

Smart debt management is often overlooked as a way to improve your finances. Please call if you'd like to review or create your debt and savings plan. ❍❍❍

# Drip Beef Sandwiches

**1 4-lb. Chuck Roast**

**3 T Butter (unsalted, if possible)**

**2 T Canola Oil**

**2 Cups Beef Broth**

**2 T Rosemary, fresh and chopped finely**

**1 16-oz Jar of Pepperoncini, juice and all**

**2 Yellow Onions, sliced**

**Salt & Pepper, to taste**

**10-12 Deli Rolls, toasted and buttered**

## Directions:

Sprinkle the Chuck Roast with Salt and Pepper, to taste. In a heavy pot over high heat, melt 2 T of butter and add the 2 T of Canola Oil. Sear both sides of the roast until very browned- approximately 5 minutes on each side. Pour in all of the Beef Broth and 1 cup of Water. Add the Rosemary and the full can on Pepperoncini, including the juice. Cover the pot and simmer until the meat is tender and falling apart, approximately 4-5 hours.

In a separate skillet, melt the rest of the Butter and add the sliced Onions. Saute until golden brown and set them aside.

When the meat is done, remove it from the pot and shred it completely using 2 forks. Return the meat to the cooking liquid and keep warm.

To serve, toast the rolls and add a generous portion of meat to each roll, spooning some liquid over the roll and meat. Top with the onions and serve. Adding roasted bell peppers and sliced mushrooms would be an additional topping that would be delicious.

# Investment Answers News

As Fall comes to a close and the holiday season comes in full force, we want you to know that we are here as a resource to you and your loved ones. We do know how difficult the holiday season can be, and many of you or your loved ones may be dealing with challenges to health, finances, or family.

Family financial meetings may not solve all of the troubles that may arise, but they can certainly help to build peace of mind as you work towards your long-term goals. Those well thought out, flexible and personalized financial plans, can really come in handy when fatigue sets in from the stresses of life that get thrown at you.

Please remember, as inclement weather increases, it is absolutely essential to review your existing Life Insurance coverages compared to your existing needs. We have wonderful resources to help consolidate your existing Life Insurances in order to help provide coverage that reflects your existing needs.

Are you thinking about retiring or starting to take Social Security? Those are things you can do without consulting a CFP® professional, but why would you? Income planning is one of the things that we do best, and we are here to help leverage your lifetime income benefits for your greatest advantage. We're here to help.

# Avoid Credit Card Dependence

The discrepancy between the cost of living and income had led to Americans to rely more of credit cards. Approximately 70% of Americans have at least one credit card, with the average credit card balance over $16,000. With the average credit card interest rate at 18.76%, the average household is paying almost $1,300 in interest each year. (Source: *CNBC*, 2016).

Ask these questions to evaluate your credit card dependence:

1. Do you rely on credit cards to make it until your next paycheck?
2. Do you seem to always have to put unexpected expenses on your credit card?
3. Do you spend more than you would with cash because your card has rewards?
4. Do the holidays leave you with a mountain of debt?

If you answered yes to any of these questions, consider the following:

- Put your credit cards somewhere for safekeeping to reduce the temptation to use them as your regular form of payment.
- Become more disciplined with spending by enacting a cash-only policy. Debit cards may allow you to overdraft your account, which may charge a fee for this overdraft privilege.
- Consolidate your balances to fewer credit cards that have the lowest interest rates. While closing credit cards can have a negative impact on your credit score, it may be better to have that as your temporary credit setback rather than going deeper into debt if you can't control your spending.
- Shock yourself by looking at your credit statements to see how much you're paying in interest annually, how long it will take to pay off the balance, and how much interest you will pay if you only make the minimum payment. ❍❍❍