Take Debt Seriously

It is so important to be a credit-worthy person. Everyone knows that potential lenders look closely at your credit record, but did you also know that landlords and insurance companies do, too? Here are some tips for building up a clean credit record—and making sure it stays that way.

You probably already know that your credit report is all-important when it comes to qualifying for any type of loan, including a mortgage, an auto loan or a low-rate credit card, but you may not realize that having a lousy credit rating (or credit score) can impede you when it comes to getting a job, renting an apartment or even getting a decent rate on auto insurance.

Landlords, employers and insurance companies have all discovered that someone who pays their bills on time is likely to be responsible enough to pay them as well and responsible enough to drive safely on the roads. That means it's in your best interest to keep your credit report and your credit score in their best possible condition.

Now you probably know that your credit report is essentially your credit history. It details what sort of loans you have outstanding, how long you've had them, whether you pay your bills on time and so on. (The information is not just from credit card companies, but all your creditors including utilities, landlords, hospitals, banks, etc.)

Your credit score, however, is more complicated. It's a computer-based determination of the risk you pose to each of your creditors. In fact, it's calculated differently for each lender, using those particular parts of your credit report that are thought to be the most telling.

According to Fair, Isaac & Co., a leading supplier of credit data, these scores include up to 100 factors, including the number of times you've paid bills 60 days late, the size of your credit line (particularly the part that isn't being used), the number of recent inquiries into your credit history (an indication that you're looking for more credit) and any bankruptcies, liens and foreclosures.

> "You will never win the lottery, so quit spending money on tickets."

Unfortunately, while you can and should take an annual look at your credit report, you can't see your credit score. It's available only to lenders and they pay handsomely for it. But you can improve your score (and your overall credit history) with some fairly simple maneuvers.

Debt: Managing Your Credit Shrewdly

In the process of building our financial future, there are times when we ask another person or a financial institution to use their money for a limited period of time. This is borrowing or taking out a loan. Usually, the lender allows us to use their money in exchange for a percentage fee called interest. Our generation seems to be caught up in easy credit because of the ready money available.

There are very few people (if any) who do not worry that money may be going out the door faster than it is coming in. Most people have revolving credit balances from credit cards and other retail establishments and a small group are enslaved to mountainous consumer-debt burdens that eat at large parts of their income. Whether you are moderately in hock or in a deep hole, you can break that debt cycle.

At one time (a few years ago), it may have made some sense to borrow. You could deduct interest payments from your income taxes. With the cost of living running at 8 to 12 percent a year, you could repay your loans with cheaper dollars later. But now tax deductions for interest on consumer purchases have dried up. Inflation seems to be under control, meaning that expensive dollars remain expensive; and you can't count on huge raises in personal income a couple of times a year.

In spite of some lower interest rates available, credit card companies continue to charge extremely high interest on the unpaid balances. At the same time, passbook saving accounts pay so little, it is hard to see an advantage to them. Falling behind on repaying lenders will only serve to hurt your credit rating. Late payments can remain on your credit file for seven years.

Even if you do pay on time, having too much installment debt compromises your ability to borrow for something important in the future. If the whole country is in an economy that's not doing well, the last thing you should have is a lot of debt.

Debt: What's the Limit?

How much debt is just too much? A call to a consumer credit counseling service yielded this advice. Spending more than 15 percent to 20 percent of net income on monthly debt payments, not including your payments on a home mortgage, is just too much.

Easy availability of credit is partly to blame for many problems. Creditors are not the tight-fisted people they were years ago. It is common to receive several offers for credit cards each week in the mail. All you need to do is sign the offer and return it for instant credit. Potential creditors approve consumer credit with unparalleled leniency. After all, it's hard for them not to make money with interest rates of 18 percent or more.

People who use credit cards as a receipt process and then pay their outstanding balance in full each month will avoid trouble. Credit card companies disguise potential debt problems. It is tough to spot trouble when the minimum monthly payment required reflects only 3-5 percent of the total balance. One can be dangerously in debt before any difficulties are noticed.

While it is illegal for creditors to send you unsolicited credit cards, they can increase the limits or lines of credit without asking. For people who have difficulty in controlling their spending habits, more credit means more debt, which means more trouble.