

## Tips for Maintaining a Good Credit Rating

For most Americans, debt is an essential financial tool for achieving a desired lifestyle. Therefore, it is important to establish and maintain a good credit rating if you intend to make substantial debt-financed purchases in the future.

### Why Credit Is Important

It is important to establish credit if you plan to buy a home or automobile some day. Credit cards also provide a means of reserving a hotel room or obtaining cash while traveling.

If you are a college student, recent graduate or 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 credit card. Having someone else cosign a loan for you will also get you started.

Creating a positive credit history for yourself requires using your credit card intelligently. Following are some dos and don'ts to help you manage credit effectively:

- DO NOT charge more than you can easily pay off in a month or two.
- DO NOT be fooled into paying just the low minimum payment amount listed on a bill. Credit card issuers make money on interest; there is nothing they would like more than to have you stretch out payments.
- DO consistently pay your bills by the due date.
- DO 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 goes into your credit report and affects your credit rating. If you are 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 gather detailed information about how consumers use credit. Businesses that grant credit regularly supply credit information to credit agencies that then compile this information into credit reports, which are sold to banks, credit card companies, retailers and others who grant 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 agencies, requires anyone who acquires your credit report to use it in a confidential manner.

The following information is 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.
- Past accounts, paid in full, but are now closed.
- Repossessions, charge-offs for bills never paid, liens, bankruptcies, foreclosures and court judgments against you for money owed.
- Bill disputes.

do so within a “reasonable time,” usually 30 days. If the agency cannot verify the information, it must be deleted from your file.

### Be Credit Smart

Like other areas of your life, your credit history requires maintenance. Even if you pay your debts on time, do not assume that your credit rating is flawless. Mistakes do occur.

FCRA entitles you to review information in your credit file. If you have been denied credit, the company denying credit must let you know and give you the name and address of the credit agency making the report. Once you have this information, you can send a letter to the agency and you will receive the information in your credit file, at no cost, within 30 days.

Obtain a copy of your credit report periodically and check it for accuracy. Federal law entitles you to a free credit report from each of the three national credit reporting companies—Equifax, Experian and TransUnion—once a year. To get yours, visit **annualcreditreport.com**. (Keep in mind that other websites claiming to offer “free” credit reports may charge you for another product or service if you accept a “free” report.) If you wish to dispute any information in your file, write the agency and ask them to verify it. Under the law, they are required to

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