

FINANCIAL FREEDOM

Ten Ways To Wreck Your Credit

By Kathy Jo Pollack
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After many years of talking with consumers about credit, I have come up with my list of the *Top Ten Ways to Wreck Your Credit*.

No doubt, credit fuels our economy, and it also affects all of the major areas of our lives, good or bad. It can affect where we live and work, and our ability to borrow money or get credit. Insurance companies, landlords, employers, and lenders all have the legal right to access our credit reports.

At times we can be our own worst enemy. Look at the list below and *avoid* these ten accidents so that you can build a solid credit history that will serve you well for years to come:

Accident #1: Not checking your Credit Reports, annually, from all three nationwide consumer reporting companies, commonly called credit bureaus. You can now check your credit report free every year from each of these three: Equifax, Experian, and Trans Union.

Why should you check your credit report annually? First of all, you never know when you may need it, and you want it to be accurate. At some point in your life you may want to buy a house or car, change jobs or rent an apartment. If so, chances are good that your credit report will be reviewed. Credit reports are notorious for errors. Many people assume their reports are correct and wait until the last minute to check them, for example when they are ready to buy a house. Possibly they do not even check them at all and then scramble when they find out they cannot get a loan or cannot get that great low rate. The reason for this might be that there are inaccuracies in their credit report (s). All three reports may differ, and it is up to the consumer to check his/her reports and have the errors corrected by disputing the information. Correcting the mistakes is not instantaneous and takes considerable time and effort. The credit reporting company has up to 30 days to investigate your dispute. Also, keep in mind that if your credit report is wrong, your credit score will probably be wrong, too, since a score takes into account the information contained in your credit report.

Do yourself a favor and check all three of your credit reports every year. You should give yourself every possible advantage that good credit brings. Here is the link for the only authorized online source for your free annual credit reports:

www.annualcreditreport.com/cra/index.jsp

As a suggestion, you may want to access one report every four months instead of checking all three at once. Plus checking your credit reports is a great way to catch an identity thief!

Accident #2: Thinking that credit equals income. Credit does NOT equal income. If you have \$1,000 in your savings account and a \$1,000 limit on your MasterCard, it is NOT the same. Do not be deceived!

Accident #3: Allowing the total of your monthly credit payments to exceed 20% of your monthly net income (excluding mortgage). It is easy to get over-your-head in debt. Before taking on another monthly payment, make sure you can afford it. Check to see if the payment will cause you to exceed 20% of your net income (or less if you are on a fixed income or tight budget).

Accident #4: Not having a spending plan or a budget for what money is coming in versus what is going out. You owe it to yourself to know what it costs you to "live", and that includes planning for annual/periodic expenses (property tax, homeowners and auto insurance) and knowing the difference between wants and needs.

Accident #5: Not having at least three months of after-tax income saved – readily available – for an emergency. At the very minimum, have \$500 ready for the unexpected such as a bounced check fee, auto/appliance repair, or an insurance deductible to name a few. If you have a deductible on your auto policy, do you have the money readily available to pay the deductible if you have an accident and need your vehicle repaired?

Accident #6: Not reading your credit card statements every month and as soon as they arrive. Terms can change quickly and you do not want to be caught unprepared with a large balance and a new interest rate that has skyrocketed.

Accident #7: Not balancing your checkbook every month as soon as the statement arrives. It is easy to make mistakes and you do not want have an inaccurate balance or end-up with a bounced check and fees. Make sure you know what is in your checking account and if there are mistakes, act quickly and responsibly to correct them.

Accident #8: Not reading the fine print on credit agreements before you sign. Make sure you know and understand the terms, such as fees, due dates, interest rates, penalties, etc. It is too late to learn the rules of the game when you receive a statement with an additional fee plus a higher interest rate because you missed a payment, paid a day late, or went over your limit.

Accident #9: Financing something that will not outlast the payments (my personal favorite). If the item is gone, used, or obsolete (for example: food, gas, and clothing) you should not be continuing to make payments on it.

Accident #10: Cosigning. If you cannot afford to make the payment yourself and consistently check it every month for the length of the loan, don't cosign. By the time the car is re-possessed or a collection agency is calling you, it is too late. Your credit and good name have already been damaged. Many people cosign knowing full-well that they could never afford the payment and are not willing to take the time to follow-up with the lender each and every month.

In closing, although accidents can happen, you don't want to cause one. Be mindful of the rules and keep your eyes on the road to good credit. Know the power of credit and how it can be wrecked or repaired.

Author's Bio

Kathy Jo Pollack is a certified life coach and speaker with a focus on financial independence. She has worked with thousands of people from all walks of life as the training specialist for Consumer Credit Counseling Service and has taken her passion and expertise to a new level as a coach and writer. Please visit her at: www.kathyjopollack.com