Getting a Grip on Credit

You may be finding that credit is playing a part into insurance these days, and with the banking crisis having Wall Street worried, you may be as well. Here are some tips the FDIC suggests people can do to help them manage their money and credit…

1. Pay your bills on time to maintain a good credit record and qualify for low rates. Don't wait until the last minute to pay your monthly bills. Not only will you incur late-payment fees (see Avoid late-payment fees), but perhaps more importantly you risk triggering higher interest costs. That's because your payment history on your debts and bills is one of the biggest factors in your credit report and credit score.

A credit report is a compilation of how you pay your credit card bill, loans, rent, and selected other debts and bills. A credit score is a number that is based on your credit report and reflects your financial responsibility. Both are part of your overall credit history, which can determine your chances for a low-cost loan or a lower interest rate on a credit card.

While one or two late payments over a long period of time may not significantly damage your credit history, if at all, making a habit of missing payments can result in a higher interest rate, higher fees or both when you apply for any type of loan or credit card. Lenders put more emphasis on your *recent* payment history, so be particularly careful with payments in the months before you apply for a loan.

Consumers who pay their credit card bill late may face a major hike in their interest rate — often to between 29 and 35 percent. Late payments on that card also can trigger rate increases on *other* cards or loans, especially if your credit record shows other signs of risk.

2. Don't have "too many credit cards." There are good reasons to have at least two credit cards, but some people collect a stack of cards, including those from stores and oil companies, several of which they rarely use. One problem with having a lot of credit cards is that lenders look at the ones with no existing balance or a very low balance and conclude that you have the *potential* to use them and get into debt. Even if you've proven in the past to be a responsible user of credit, these "extra" cards could come back to haunt you the next time you apply for a mortgage or other loan.

"There is a cost to having too much credit," said Suzy Gardner, an FDIC bank examination specialist and an expert in consumer credit issues. "Although individual circumstances vary, having more credit available than what you can reasonably use, need or afford can hurt you in the long run."

Example: You have several credit cards and the combined outstanding balance on them is $15,000 below your credit limit. Then you apply for a home loan. The mortgage lender may question your ability to repay both a mortgage *and* $15,000 worth of new purchases on your credit cards. And, your overall credit score can suffer, resulting in the lender charging you a higher interest rate or denying the loan altogether.

One solution is to cancel the credit cards you rarely or never use, preferably well before you apply for another loan. Start by closing your newer credit card accounts — that's because your credit score can be lowered if your credit history appears shorter than it really is. Another option is to ask your card issuers to reduce your credit limit.

3. Check your credit report for accuracy. Something as simple as correcting incomplete or erroneous information in your credit record may be enough to qualify you for a better interest rate on a loan or credit card and save you hundreds of dollars each year in interest payments. For example, if you always pay your loans on time, but your credit report shows late payments, you'll want to correct that.

By federal law, you are entitled to one free copy of your credit report every year from each of the three nationwide credit bureaus — Equifax, Experian and TransUnion. Each company issues its own report, so it's smart to check each one. Go to www.AnnualCreditReport.com or call toll-free 1-877-322-8228 to order free credit reports or for more information. Although you can ask to receive copies from all three credit bureaus at the same time, you also can spread out your requests throughout the year to check for major changes or inconsistencies.

Identity theft is another reason to regularly review your credit reports. Make sure an ID thief hasn't opened credit cards or other accounts in your name to commit fraud (see Credit card fraud).

4. Periodically review your existing loans and credit cards with an eye toward saving money. "Talk to a customer service representative at your bank to make sure you're signed up for the accounts and features that best fit your needs, especially if your financial situation has changed recently," said Janet Kincaid, FDIC Senior Consumer Affairs Officer. "For example, if you tend to carry a balance on your credit card, find out if you qualify for a credit card with a lower interest rate or other features that can cut your costs."

For tips on refinancing an existing loan or credit card, see Refinancing: Tips for Mortgages and Other Credit.

5. Focus on the long-term cost of the loan, not the monthly payment. "Many car dealers or even mortgage lenders will entice borrowers by asking how much they can afford to pay each month," added Kincaid. "It may be better to pay slightly more money each month, but for a shorter time period, if it means you will be paying less in total interest."

She also said that some people look so much at the monthly payment that they don't notice certain fees or service charges that are imposed. "You've got to look at the full picture before signing a loan agreement, including the APR and provisions of the loan that can increase fees," Kincaid said.

You can also avoid unnecessary interest charges if you pay for certain costs out of your own pocket instead of borrowing that money, too. Let's say you're getting a new mortgage and you're offered the chance to add the closing costs to the loan instead of paying them upfront. Sounds good on the surface, but remember that you're not getting out of paying the closing costs — they're added to the loan balance, so your monthly payments will increase and you'll be paying interest on the closing costs.

6. Read the fine print before signing up for any loan or credit card. For example, realize that if you get a new credit card promoting zero-percent interest on new purchases and you don't pay off the *entire balance* by the due date (typically after six to 18 months), you may be charged interest on all your original purchase amounts — not just on the remaining balance — retroactive to the original purchase date. The costs could be more than if you had used a card without a zero-percent offer. With a mortgage loan, find out when your payments will or could change and how much higher the payments would be under different scenarios. What you don't read and don't know can cost you a lot of money.

Using a Loan or Credit Card

7. Avoid or limit interest charges. While it may sound like a bargain to pay the minimum due on your credit card so you have more money to spend on other things, the long-term costs of this strategy can be staggering. That's because credit card interest rates can be quite high — with the best of rates often being in the low double-digits. Instead, try to pay all or as much as possible of your outstanding credit card balance to avoid interest charges. "The amount you pay toward your credit card bill each month can have greater long-term consequences for your finances than how much money you save or invest each month," added FDIC Consumer Affairs Specialist Howard Herman.

Similarly, many people send in more than the amount due on their mortgage (see Look into paying off your mortgage sooner rather than later) and other loans so they can pay off the debt faster and reduce their total interest cost.

8. Avoid late-payment fees. These are penalties, typically $30 or more, charged by your lender when you don't make a loan or credit card payment on time. One way to prevent late fees is to arrange, at no charge, for an automatic withdrawal from your checking account to cover these and certain other recurring expenses (such as a utility or insurance bill). The automatic debiting of your account also takes the hassle out of making scheduled payments and saves on postage. However, be sure to record these automatic payments in your checkbook, said FDIC attorney Susan van den Toorn. "If you don't," she cautioned, "you might end up accidentally overdrawing your checking account and subjecting yourself to fines and damage to your credit score."

It is also possible to pay your loan or credit card bill online, but it's recommended that you pay about two days before the due date to be sure it is processed on time. Also know your financial institution's cut-off time for recording payments each day. If you're bumping up against the deadline and you can't pay online, consider calling your card company and asking for other options, such as providing bank account information to authorize an electronic fund transfer from your checking account. "Even though there may be a small service charge for these options, it will likely be less than a late-payment fee," said Kirk Daniels, a supervisor in the FDIC's consumer affairs section.

Should you pay the old-fashioned way — by regular mail — allow enough time for delivery and processing by sending your payment about a week before the deadline.

9. Don't be afraid to ask for a break. Do you think the fees for your mortgage application are a bit steep? What about the fee you were charged for being late with your loan or credit card payment? Depending on the circumstances, your lender might be willing to reduce an interest rate or waive a fee or penalty, especially if you've been a good customer. Even the interest rate on your credit card may be subject to negotiation.

Also talk to your banker if you're having problems repaying a loan. Explain the situation and any unusual circumstances. Many lenders will agree to temporary or permanent reductions in your loan interest rate, monthly payment or other charges. Open communication is key. Again, it helps if you've had a clean record in the past.

10. If you have a serious debt problem, a reputable counseling service might help you avoid losses. A variety of organizations specialize in helping borrowers deal with debt overload, minimize the damage to credit histories and, in the worst cases, avoid foreclosures that could result in the loss of a home or other property. Their services range from helping people establish a budget to talking with lenders to discuss modifying the terms of a loan. But be careful before signing an agreement with a credit counselor because some may offer questionable or expensive services, and others may be scams.

Start your search by asking people you trust for referrals. Then check with your state Attorney General, local consumer protection agency and the Better Business Bureau about any complaints against the organization. "You'll also want to know as much as possible about the services, the fees, the qualifications of the counselors, and how much input you will have in working out the details of any commitments with your lender," added Sam Frumkin, a Senior Policy Analyst in the FDIC's Division of Supervision and Consumer Protection.

In addition, the FDIC and other banking regulators have been urging borrowers who are delinquent on a mortgage loan and at risk of losing their home to get help from a specialist called a "housing counselor." To find a reputable one in your area, contact the U.S. Department of Housing and Urban Development (1-800-569-4287 or www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm) or the Homeownership Preservation Foundation (1-888-995-4673 or www.995hope.org).

We hope you find these tips helpful. We also wish you and your family a very healthy and prosperous New Year!