

# Establish Credit Today, Save Tomorrow

## *How a .25% Could Cost You Thousands of Dollars*

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Do you know your credit score? No? You should because it's an extremely important indicator of your financial health as well as a vital component of reaching your financial goals. While you may take on tasks like tax planning and tossing old records mid-year, your credit score is something you should be stay on top of year-round.

Many people don't understand the value of a good credit score. It's more than the prestige of having a high number. It's your ability to get a car loan, an established credit card and borrow when you're ready to buy a home.

As a consumer and an investor, you want to have access to credit as you build and grow your portfolio. Sometimes borrowing makes sense because you can accomplish more objectives faster. If you didn't borrow, and you tried to save to buy a house, you could do it, but it would take you a really long time. Debt can help you achieve those goals when you use it wisely to build a good credit score.

### **How do I find out what my credit score is?**

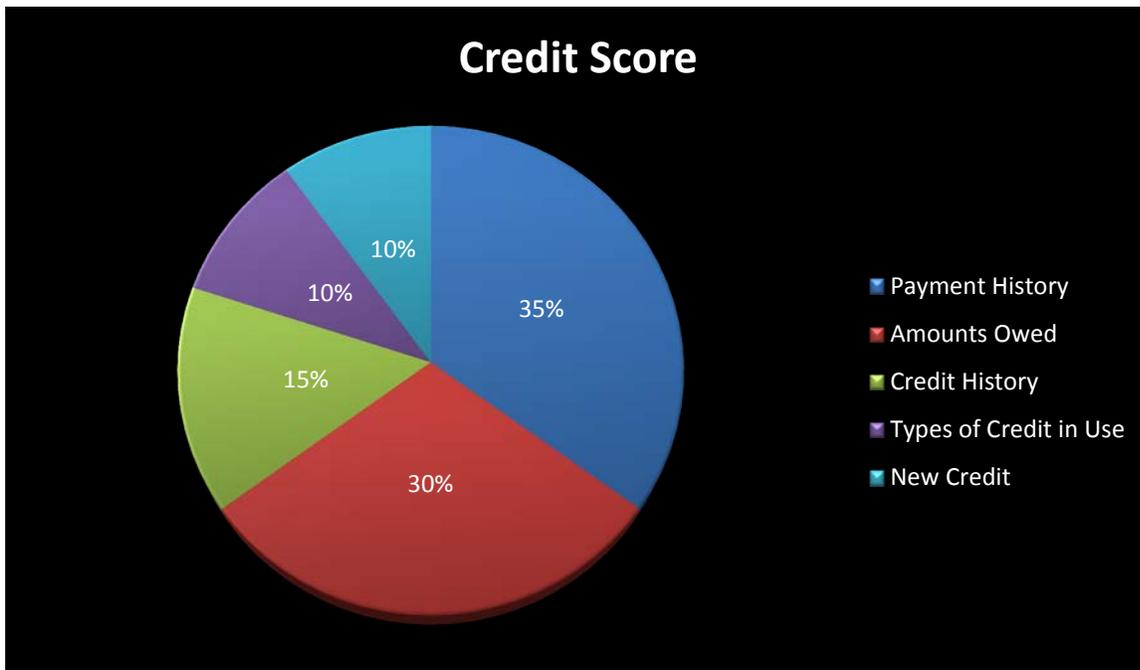
These days, you'll find that a lot of credit card companies are including your credit score right on your statement. If you're fortunate enough to have a company that's tracking it every month – like CitiBank, Discover and Capital One – this is a good first step in identifying your credit score, but it by no means should be the most meaningful place you're getting your information. Ultimately, you want to obtain a copy of your credit score as tracked by the three major credit bureaus – Equifax, Experian and Transunion. What's nice is that technology has changed things and you can now get your credit score for free – for example, at [creditkarma.com](http://creditkarma.com).

In addition to knowing your score, you'll also want to do a yearly check of your credit report to look for instances of possible identity theft and errors. You can review your credit report for free at [annualcreditreport.com](http://annualcreditreport.com). If you do find an error, you need to let the credit bureau know. You do have an opportunity to fix them, but you need to hop on that right away. Once you have this information, you can track it and start to understand it.

### **What makes up my credit score?**

A credit score of 750 or better is considered excellent and means that you're likely to get the very best interest rates when you're borrowing as well as all kinds of credit possibilities that could save you thousands of dollars over time.

Here's how your credit score breaks down:



- **35% -- Payment history.** You want to make sure your payments are consistent and on time. Late payments are bad, especially considering that payment history is the single highest percentage factor that makes up your credit score.
- **30% -- Amounts owed.** If you have a lot of different credit cards and you have small balances on them, you could borrow a lot. That's called your debt utilization ratio. This is why it's okay to have a high number of outstanding credit cards as long you're monitoring your debt utilization ratio. The most ideal scenario in this case is that you could pay all of your debt off in one month. That would make you very attractive to credit card companies.
- **15% -- Credit history.** This includes bankruptcies, other debts, loans written off, etc. – you really don't want to have any of these things. Also, the length of your credit history is important.
- **10% -- Types of credit in use.** Can you handle basic payments for things like utilities? Can you handle the balance of what your debt is now? By taking on new credit, is this going to upset the balance of being able to pay your bills going forward?
- **10% -- New credit.** Don't open up a bunch of new lines of credit at once because it will have a negative effect on your credit score.

## Credit FAQs

**Is it really *that* bad to cancel a credit card?** Yes! If you cancel a card, it could lower your credit score. You want to show a long history of paying your bills on time.

**How often should I use my credit card?** You want to use them periodically, maybe once a year. This keeps them active; otherwise, the credit card company may cancel it.

**Isn't a debit card better?** In many cases, using a debit card can seem smart financially, but using a credit card would help you start to establish your valuable credit history. Young people, in particular, should want to start building a credit score, so this maybe something to talk about with your college student or recent graduate who's just starting out.

## **Establish credit today, save tomorrow**

Establishing a credit score today can help you save big money in future years because you get better interest rates and deals. For example, if you're approved for a 4.25% versus 4%, that extra quarter of a percent will cost you \$15,527 more on a \$300,000 thirty-year mortgage. That's why you want a great credit score. If you're responsible with credit, it can work for you.

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