



## ***Two Key Ideas - Credit Scores and Building Credit***

We all have heard the same mantra: save your money, invest your savings, and don't take out debt! But what happens if we never utilize credit or debt? Let's look at two key ideas we find most applicable to our clients with some things you should consider and know about.

### **Pretending Credit Does Not Exist**

Credit Scores are an integral factor to financial success. As backwards as it may seem to many, without utilizing credit and/or debt, one cannot establish or maintain a high credit score. Many people have been brought up to believe debt is bad. Better said, the way you use debt can be bad. But debt can also be utilized as a springboard for financial success. One who pays for everything in cash may have no debt but may also have no savings. As a result, that individual may have no credit score, or simply a low credit score.

As we all know, this is not a universal truth, but nonetheless a situation many middle class and wealthy individuals find themselves in. In some cases, our fear of debt and credit can inhibit us from qualifying to buy that dream home or rental property we wanted. It is not uncommon to come across wealthy individuals with less than good credit scores. The good news is it can be fixed!

One thing many people don't realize is income and net worth play no factor in credit scoring. A wealthy person with no established credit may not qualify for financing or may be offered a higher interest rate for a loan such as a mortgage. As such, it is important to consider income and credit as separate entities of your financial wellness.

A credit score can be thought of as a risk percentage. It is a tool meant to judge the likelihood a borrower will pay back their obligations based on their prior financial behaviors. The more tracking of your financial behaviors, i.e., history of paying auto loans, mortgages, and other debts on time, as well as not overusing credit cards while not missing payments, the higher your credit score. This indicates low



risk to any bank, lender or credit card company considering extending credit to you.

So, even if you are wealthy enough to never borrow money, it can make sense to at least open a line of credit, use it once every 3 to 6 months and always pay it off. You avoid interest and most fees while still building a strong credit score.

### **How Young is Too Young to Build Credit?**

Many young adults find it difficult to buy their first car, qualify for their first credit card, or obtain a personal school loan without having an established credit history. It may be surprising, but you can help your children build credit prior to turning 18 years old. One strategy is making them authorized users on your credit card accounts. This allows your child to piggyback off your great credit history and start adulthood with a strong credit score of their own.

You do not need to give your child access to that credit card until you feel they are ready. It can be a great method to teach your child about financial wellness and the benefits and pitfalls of utilizing credit. But always remember it is YOUR credit card account – as an authorized user your child is not responsible for the credit card balance.

Many financial institutions now have financial products created to teach children financial responsibility at younger ages. Primarily this is because in an era where we hardly use cash, if at all, it is becoming imperative to teach our children proper management of debit and even credit cards. Learning these behaviors at an early age can prevent mistakes in the future that can haunt your children for years.

Another strategy would be helping your child become a primary user of their own credit card through co-signing. This strategy has an even higher benefit than adding your child as an authorized user. However, this can come with drawbacks if your child has not yet learned financial responsibility. You will both be deemed equally liable for any misuse of the credit card including late payments or unpaid balances. It will do more to build your child's credit score but does come with added risks to your own credit.

These are just touch points regarding the use of credit, but please feel free to call me with any questions regarding credit scores, building credit or other topics. It is always a pleasure to be of service.