

From The Desk Of...

Gary Jarvis - Vice President

Credit Reports & Credit Scores



You earned it; keep what you deserve!

Which one of the two following scenario's makes sense?

Scenario One:

You graduate from high school, accepted to Gonzaga University you're off to college. Fours years later with your law degree in hand you find yourself passing the Bar exam to practice law, now it's off to find a job with a local law firm. With your resume and attorney's certificate proudly in hand you land a great job. **Ten years later:** With success under your belt it's time to find a bigger, better law firm to work for, maybe a partnership. On your resume there's no mention of your Gonzaga law degree and this time around you're not proudly holding your certificate to practice law, you'll get this job strictly off of your good looks!

Scenario Two:

Everything the same in scenario one down to - **Ten years later:** With success under your belt it's time to find a bigger, better law firm, maybe even partnerships. While golfing in an attorney charity event, a member of your foursome notices your ZAGS polo shirt and asks if you earned your law degree there, proudly you say "You Bet." With further conversation you set up an appointment for an interview with this gentleman. Your resume proudly indicates your Gonzaga law degree and after most of the conversation is directed towards the great Gonzaga law education and the Zags basketball program you're offered a partnership on the spot.

Here's how it makes sense with your credit score.

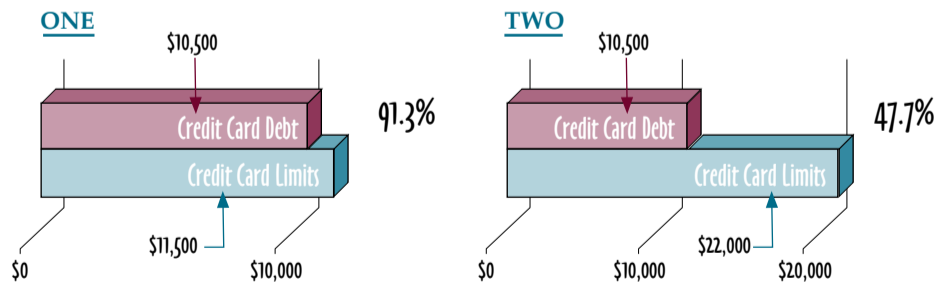
With every loan request we receive it's important to evaluate the members credit risk; could be monthly income, monthly debts, length of employment, past payment history and of course that "magical number" again - you're Credit Score! We share every credit report with our members to teach them how to increase or maintain that magical number that seems to almost run our lives.

Other than the obvious of just making your payments on time each month, the single most important part of your credit report is your revolving lines of credit - credit card debt. Because this portion of your credit report has debt that changes each month with payments and new charges it can extremely effect how your score reacts to that activity. The installment portion of your credit report; vehicle, boats & RV, 1st & 2nd mortgages, have required payments each month with decreasing loan balances.

The difference between the amounts of credit card debt you owe to the amount of credit card limits available to you is what we call "Capacity." In other words, if you have a \$100 credit card limit and you owe \$90, you are at 90% of your capacity. Immediately this sends a message to your credit score that you are in a danger zone. With the high possibility of robbing from Peter to pay Paul as your capacity of credit card debt heightens to eventual slow pays, 30 then 60 days past due, ultimately lowering your credit score dramatically.

Unfortunately, the scenario in the last paragraph relates to all consumers given the fact the all credit scores are computer driven by parameters set up by credit reporting agencies. In other words these computer driven scores have no emotional feelings towards you what-so-ever. In this scenario they do not consider that you pay on time, whether you have \$1000 or \$10,000 in credit card debt, they do not care that your child is a grade school honor student or that George W Bush is your uncle, this computer driven score ONLY knows that you are at the "Capacity" of your credit limits, at the edge of a cliff!

Looking at the charts below will help put in perspective on how these unemotional computer driven scores are generated. Chart One illustrates a consumer with \$11,500 in credit limits with debts totaling \$10,500, 91.3% of their "Capacity." This could be one credit card or five, keep in mind the credit score doesn't really care. After a debt consolidation to one credit card at SLECU of \$10,500, leaving all credit card limits open afterwards, chart Two illustrates the same consumer with the same \$10,500 in debt, but with limits up to \$22,000 dropping their "Capacity" to just 47.7%. Breathing room, whew!



In closing, you're still probably wondering what the correlation is between earning a law degree and credit card limits? It may be a little extreme, but almost daily we get asked if members should close credit card limits on accounts that they are no longer using; like a law degree you should always take credit for the credit limits you have earned, when closing credit card limits it will squeeze your "Capacity" which will in turn negatively effect your credit score. Once a credit limit is closed it will no longer report as "open good credit," in an effect.

Like a hard earned law degree, credit limits are earned not handed out. Keep them open.

Yours truly,

gary@slecu.org

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