

# NUMBERS GAMIE

You can put more money in your pocket by playing smart with your credit. Use our strategies to make sure you're getting the best possible deals on your loans.

BY CHARLES BUTLER

**M**y wife thinks I'm weird, no doubt for lots of reasons, but lately it's been because the first thing I do every morning is go online to see which checks have cleared and where our credit card balance stands. I also accept every free credit report offer I receive and love paying bills the minute they arrive—even though my college finance professor would slap my wrist for not holding off and letting my money gain interest for *me*, not somebody else.

For all my compulsiveness, I missed a payment deadline recently and learned about it only when we got a “friendly” reminder from our card company. It was weeks before my wife stopped teasing me with scary predictions about our credit rating. Luckily she was wrong, a big relief because these days when you're looking for any kind of loan—car, house, school, credit card—there are no more slam dunks. Which means we all need to be smarter about how we borrow and how we manage debt we already have. You can fend off your own personal credit crises, small and large, by following these five guidelines.





## PLAYING CARDS

Should you dump your plastic? With interest rates sometimes topping 20% and fees for transferring balances or using the ATM skyrocketing, you have to wonder. Not so fast, says financial planner Stacy Francis. Go ahead and cut up most of your cards, then use only the one or two that have the best interest rates and rewards. "But don't cancel the accounts," she says. "Especially the ones you've been using the longest." When you close out an old account, it no longer appears on your history, which can hurt your credit rating. "You want to show you have a broad, deep history," she says. Another temptation is to switch to a card with 0% interest. But read the fine print—that rate may apply only to the transferred balance and you could end up with a stiffer rate than your old card's on any new purchases.

### 1 Don't let your credit score slide.

As you probably know, the first thing lenders do when you apply for a loan is look at your FICO number, which is based on your bill payment history and current debts. Your FICO doesn't just affect whether you get the loan—it's also the basis for your interest rate. Say you need \$10,000 for a new car and you're a 680. You'll pay \$330 a month over the life of a four-year loan, or a total of \$11,500. But if your score is 40 points higher, you'd pay only \$11,000.

Your score also has an impact on borrowing for college. "Any family with bad or marginal credit won't get a private loan at all," says Mark Kantrowitz of [finaid.org](http://finaid.org), which follows the student loan industry. And where a 620 used to qualify for the best loan rate, now you'll need to be between at least 650 and 700.

To boost your score, work hard to get rid of those credit card balances. "Pay down the one with the highest rate first," says Liz Pulliam Weston,

author of *Easy Money* (FT Press). "Pay as much as possible on that one until it hits zero, sending in the minimums on the rest." Next, she advises, tackle "any cards near their limits, since they're doing the most damage to your score." Also request a copy of your credit report and immediately correct any mistakes.

### 2 Look around for other ways to borrow.

Banks aren't the only places that give loans—nowadays you might do better with a credit union. They used to be offered only to members of certain communities or professions but are now available to almost everyone. The National Credit Union Association, which oversees and insures credit unions, can provide leads. Go to [ncau.gov/indexdata.html](http://ncau.gov/indexdata.html).

Another option worth exploring is social lending, where you borrow from family and friends. Okay, we know: The thought of owing money to your aunt or brother-in-law could add an extra layer of awkwardness to

your next family get-together. But you can reduce the strain by using [virginmoneyus.com](http://virginmoneyus.com) or [prosper.com](http://prosper.com) to formalize the loan and set up repayment plans. The best perk: A kind-hearted relative may give you a much lower interest rate.

### **3 Refuse to tolerate exorbitant rates.**

Banks and other lenders have taken a lot of hits recently and don't want to lose any more customers. If your mortgage interest has gone sky-high, talk to your lender, says Gerri Detweiler, an adviser with [Credit.com](http://Credit.com), an advice and advocacy website. "If you're sinking under your current payment but could stay in your home with a more affordable loan, be persistent about refinancing," she says.

Be just as aggressive about other kinds of debt. If you're paying credit card interest in the high teens (or more), check around for companies charging less. Then go back to your issuer and ask them to match the competitor's rate. "Half my clients who've tried this have succeeded," says New York financial planner Stacy Francis, "especially if their payments had been on time and their credit was otherwise good." But what if the lender says no? Then ask to close your account. "Those magic words will get you quickly transferred to the customer retention department," says Weston, "and they'll do what they can to keep you."

### **4 Face down college costs now.**

The average family borrows \$21,000 to put a child through college. And if that's the norm, then plenty of families are taking on even more debt. So it's really important to have a serious talk with your teen about paying for college well before the application process begins. If a



## **TRACK STAR**

**Train yourself to be more mindful about money. Write down all your purchases for a month. Then you can see where there's needless everyday spending—and scale back. Next look at big-ticket items like car insurance.**

state school is the most you can afford, say so. If he wants to apply to private colleges, show him what the finances would look like so he can make an informed decision. By the time he starts his junior year of high school he should start researching scholarship options. And make sure your teen stays on top of financial aid forms required for loans, grants and scholarships, says Kantrowitz. You don't want him to miss out because he forgot about a deadline.

Fortunately for families, many private colleges, including some top schools, have increased the grant portion of their financial aid package in the past year to offset the need for students to take loans. Still, if your kid's first-choice college hasn't come up with a package you like, don't lose hope. Ask it to match your highest offer. "If a school really wants a student, it will up the assistance," says James H. Christie, a New Jersey-based financial

## PAY OFF

Don't wait until you're overwhelmed by debt to find good advisers—there are people and agencies ready to help.

Home foreclosure » [hud.gov](http://hud.gov)

Credit card debt » [nfcc.org](http://nfcc.org)

College aid » [finaid.org](http://finaid.org), [fastweb.com](http://fastweb.com)

Mortgage rates/car loans » [bankrate.com](http://bankrate.com)

Credit reports » [annualcreditreport.com](http://annualcreditreport.com), [equifax.com](http://equifax.com), [experian.com](http://experian.com)

planner. "It is still a buyer's market for the top students."

### 5 Shop more carefully.

While we're all trying hard not to spend every penny we earn, old habits die hard. If you still sometimes find yourself opening

bank and download and categorize your transactions for free. Once you've figured out where there's needless spending—and have scaled back the takeout, canceled the manicures and started making your own coffee—look at big-ticket items like your car. Your total annual costs, including loan payments, insurance and gas, shouldn't go above 20% of your net income, advises Philip Reed of the automotive consumer website [edmonds.com](http://edmonds.com). He suggests canceling collision on cars older than eight years, which can save you as much as \$800. Also, ask your insurance agent whether you qualify for a discount based on your profession or because your teen driver is an A student or took a safe driving course. You also may be able to bundle your car insurance with your homeowner's, which could save 10% to 20% a year.

As you curtail excess spending, says Weston, "throw every dollar you can at debt. Some monthly bills, like heating, water and electricity, are somewhat controllable, so trim there. Set up automatic payments, sending the money you've saved directly toward paying down what you owe." You might even want to take a look around the house to see whether there are things you can sell on eBay or on Craigslist. The more ways you can think of to deal with your debt, the sooner you'll get your finances back where you need them to be. ●



### SAFE BET

Okay, borrowing from family members can be awkward. But there are ways to reduce the strain by formalizing loans and setting up repayment plans. And you could get a lower interest rate.

your wallet first and asking questions later; train yourself to be more mindful. Start by tracking all your purchases, no matter how small, for a month. You can do it the old-fashioned way, with pen and paper, or log on to [mint.com](http://mint.com), which will connect with your