



Regions Next Step Podcast

Credit Basics: Building a Credit Checklist

In this podcast, you'll hear tips for building a credit checklist from Eric Smith, founder of The EKS Group, and creator of The Financial Literacy Coach and The Money Game Literacy Program.

Tune in through the link below to learn more about:

- Tips for establishing and building credit
- Tactics for maintaining credit balances and organizing payments

Episode Transcript

Narrator:

You're listening to the Next Step Podcast, building a credit checklist, part of our Credit Basics Series presented by Regions Next Step, advice tools and resources to help you get closer to reaching your unique financial goals. Today, we will hear from Eric Smith, Founder of the EKS Group and creator of the Financial Literacy Coach and the Money Game Literacy Program. With over 28 years of experience in the financial industry, Eric is going to help us with how to build a credit checklist. Now, let's get into the discussion. Eric, to start off, how would you describe a credit score to someone that may not be familiar? What makes someone credit worthy?

Eric Smith:

That's a good question. First of all, I would say that a credit score is a three-digit number, generally speaking, between 300 and 850 that tells people how well you have historically paid your bills. And the thought behind this is that what you have done in the past is probably a pretty good indication of what you're likely to do in the future. So, if you have a long history of using debt and credit responsibly, you always pay people on time. Perhaps you pay things off early. Well there's a good chance that maybe you'll continue doing so and if you're coming to me asking me to loan you money, and let's just say that I'm a bank -- a banker, rather, then perhaps I feel more comfortable extending you additional credit or debt because I'm now more comfortable with the fact that you're probably going to pay me as agreed. And that's kind of what a credit score does is it captures all that -- it's kind of a risk model. How likely are you to do what you say you're going to do. And there are some obviously some flaws to that and occasionally some irregularities. But for the most part, it does a pretty good job of telling somebody -- I call it physical integrity. And what kind of integrity do you have when it comes to honoring your commitments. And that's what that three-digit number for the most part captures, is the amount of financial integrity that you've demonstrated in the past. And the



reason why I make that distinction -- let's just say that your standards for approving a mortgage loan are that I need to have a 720 credit score. Well, maybe somebody else's standard for giving me a mortgage might be a 680. But generally speaking credit worthy means that you will do everything in your power to pay your debt back as you promise people that you're going to do. And so, I would say that credit worthy is another way of saying that you have, again, financial integrity and historically you have demonstrated that in the past and that more than likely you are going to demonstrate that same type of commitment to paying your debt back.

Narrator:

Fantastic. What should people consider when creating a credit checklist?

Eric:

The first thing I would also go back and revisit -- you know, what are we going to do with a credit? Are we doing it to actually create a credit score that I can use responsibly to obtain and do accomplish financial goals that I might have? And then, secondly, how much credit should I be trying to obtain? If you're starting out, it's probably not a reasonable expectation that anybody is going to give you a \$10,000 credit card. Maybe it starts with baby steps. Oftentimes, people that cannot get approved for a credit card and generally speaking I never recommend that anybody carry more than two credit cards. It helps to reduce temptation of overspending and quite honestly it will help you build a credit score a little bit more accurate credit score. But for people who can't obtain a traditional credit card, what method is to obtain a secure credit card where you save a little bit of money, you send that in to the credit card issuer, they use that as collateral, give you a credit card secured by your money and then oftentimes if you handle that credit card responsibly, you'll oftentimes see is that they will actually increase the credit limit down the road and sometimes even agree to give you the money back. But another option would be to actually go back into your bank, if you were able to save a little bit of money and ask for a 12-month secured note, again where it's secured by your own cash, generally speaking if you're going to take out an installment loan and an installment loan is where the payment is fixed every single month. I generally recommend that you always get a loan for at least 12 months so that it always is reportable. And then, another thing would be to consider getting a store credit card. Oftentimes the ability to obtain a credit card from a department store is a little bit greater than sometimes trying to obtain a mainstream credit card. But, in essence they do the same thing by reporting a credit card on your credit report. But again, you've got to be careful, you know, if you're going to go out and get a credit card, I highly encourage that you learn how to use that responsibly and by responsibly I mean charge only what you can afford to pay off every month and get in the habit of using a credit card in that manner, not in such a way where you can only afford to make the minimum payment, and that reminds me oftentimes people say, hey, when do I know if I have a credit card problem. Well, if you can only make the minimum payments on a credit card, you probably already have a problem. Next, always make your payments on time and always strive to keep those balances below 30 percent of your available credit on those credit cards. The last one would be to make credit card purchases that you can afford to actually repay in full. My suggestion is only charge



what you can afford to pay off every single month and I think that would be a pretty good checklist to start.

Narrator:

What are the top three things someone should have on their credit check list if they are just starting to build credit?

Eric:

One suggestion would be before we even start about obtaining credit to make certain that we're actually using a spending plan or another word for that is a budget every month, so that we're actually intentionally -- and that's the whole key of this, being intentional with our money before we get it. So, if we tend to be planners, if we're using a spending plan or budget every month to guide the way we spend our money, then we tend to be more intentional with saving and we also tend to be generally speaking more responsible with a credit. But I would say before we go out and establish -- try to establish new credit, that we get a handle on the money that's already flowing into our life. Because if you're not saving money, and you're spending everything that you're making, then I would say let's -- before we even talk about going to a secure new credit, let's reexamine what we're doing with our current money. Are you saving any money? Are you using your credit or your checking account in such a way that you're creating overdrafts every month, where you're paying overdraft fees? And if that's the case, then we need to examine that and really see how are you handling money now? Oftentimes and it may be that in the future the banks are going to start looking more at how you have handled that credit -- excuse me, checking account and that perhaps will be a part of a credit score going forward. But before you even start going to apply for credit, you got to get a handle on the money, how you're handling money right now and then secondly, you know have a couple of things that first and foremost, I would suggest you got to have a plan for this. Do some research, try to find out, for example, if you're going to get a credit card, I always recommend getting one with benefits but secondly, you need to again remember what a credit card is created for. It's for convenience. And it's not to supplement our lifestyle. Meaning that a credit card is supposed to be a bridge so that we -- it makes it more convenient for us to purchase so that we don't have to carry a lot of cash but we actually have the cash back home in our checking account so that we can pay that bill off in full when that bill comes. And so, a couple of tips might be to go to that bank that you already have a relationship with, consider a secured credit card. There are multiple places that you could go to look for that. Maybe a secured 12-month loan. But again, we first and foremost why are we obtaining the credit? What is the goal? Are we doing it just to establish a credit history because we know at some point in our life we're going to need that? But oftentimes I'm fearful that people are doing this just so that they can kind of ignore the part about doing a budget and saving money. It's just so that they have other mechanisms in place so that they can buy things now without doing the tough part which is coming up with some discipline and saving some money every month.



Narrator:

That's a great plan for those trying to build credit. What should be at the top of someone's checklist if they are trying to improve their credit?

Eric:

That's a great question. And I think that at the top of the list would be to identify the issues that are affecting the state of that credit. Regions Bank offers a lot of resources and being a banker for nearly 30 years myself, I would first encourage you to, if you have a relationship with your banker or the branch manager, go and sit down and ask for a little bit of guidance, advice. They may have some suggestions for you. There are sort of a credit counselors at NFCC.org, you can contact them and they can help you find somebody in your local area. I would not advise that you pay company to do a credit repair or fix. The reality is that there is no magical wand that you can employ to fix your credit overnight. If somebody is charging you \$1000, \$1500 to fix -- and I use that word loosely -- your credit, you need to be very, very careful about that. Because generally speaking, again, you didn't get into the ditch overnight and you're not going to get out overnight. I think, again, it gets back to getting some wise counsel and the bank is a great place to start. I know that Regions Bank has a ton of resources and they're very good and they value providing resources for all your different community members. But whether you bank at Regions or wherever, that's a great resource and if you don't have a bank relationship and you're in distress, I would certainly encourage that you reach out to the NFCC.org and that is a nonprofit organization that will help you find somebody in your local market. But again, the resources that we suggest are only as good as the person who's actually going to take advantage of those. And so, again, at the end of the day, it's their responsibility. My credit standing is really up to me. But what we really want to make certain is that the people who don't have access to these resources that they know where to go and that they know that there are solutions and there are steps for improving one's credit standing.

Narrator:

That's some great insight. Lastly, how often should people revisit their checklist?

Eric:

To answer that question, I would say that answer would probably change -- my answer would probably change depending upon the circumstances that they're in. I would say at the very least you should be revisiting that probably on a quarterly basis. If your goal is to reduce debt by X percent, then maybe we revisit that on a monthly basis. But if you are in a situation where you are already in credit distress, then I would certainly encourage that you revisit that checklist every quarterly. Again, to emphasize the importance of a budget. That is a checklist or game plan that we need to be revisiting every single month. And so, they kind of go hand in hand. If you've got a checklist as far as



improving your credit, it does kind of fall suit with the budget and that's really a checklist or a game plan for your overall financial health.

Narrator:

And that concludes this credit basics podcast. Thank you again to Eric Smith for joining us to discuss how to build a credit checklist. You can find additional information about credit and more online at www.regions.com/nextstep. No matter your goals, Regions will help you with each step you want to take. Thank you for listening.

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