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Life, Love and Loans

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Your financial situation can affect you beyond your bank account. In a 2015 study sponsored by the American Psychological Association, 72% of participants reported experiencing measurable, physiological stress brought on by money problems. Maintaining a healthy credit score is not always easy and may lead to financial distress. Picture this: Without a healthy credit score, your dreams of that perfect job and your favorite car might sail right out the window of that perfect home in which you will most likely not be living with your soulmate. Yikes! It doesn't have to come to that, though. Here are three things to consider as you head toward financial security by managing your credit wisely.

Life

Let's look at one of the financial behaviors we engage in on a daily basis: using a checking account. It's not a loan, and you do not "borrow" from your own checking account. But the way you manage your checking account is recorded by your financial institution and can have an impact on future access to similar financial services. While your checking account management is not reported to any of the three credit reporting agencies (i.e., Equifax, Experian and TransUnion), transactional information is often reported to what is known as the Nationwide Specialty Consumer Reporting Agency (NSCRA). Your bank or credit union uses NSCRA's collection of consumer data to decide which type of account to offer new customers and set the terms to which that customer must adhere. Specialty consumer reporting agencies like the one used by banks and credit unions are also used by landlords, auto, home and life insurance companies, cable TV and other utilities, employers and even health care providers (consumerfinance.gov). For more information on the various types of services that can be associated with specialty consumer reporting agencies, visit the Consumer Financial Protection Bureau's website found in the bibliography of this publication.

Love

Another way credit can affect your life in an unexpected way is your love life. A study conducted in 2012 indicated that relationships in which couples argue about money early on were more likely to result in divorce (Dew, Britt, & Huston). Is credit a topic that is appropriate on the first date? Creditscoredating.com would most likely say, yes! This innovative dating website matches up people based on credit scores as well as other factors, such as common interests. Bad credit could be a red flag in other areas of one's financial life. If things progress with your newly discovered financial soulmate, you want to be able to trust them with common household expenses and bills. In many relationships it is common for partners to share the household income. In such instances it is important to be sure that your money is being spent in a responsible way. Likewise, when looking for a home together, married couples will often prefer joint ownership of the property. Joint ownership on the house means joint ownership on the debt that comes with it. The saying "what's yours is mine, and what's mine is yours" applies even to credit.

Loans

Watch out for requests from friends, family and/or partners to co-sign with you on a loan. When you co-sign with someone, you are acknowledging that you will be responsible for the payment of whatever type of credit product the primary applicant has applied for (i.e., mortgage, car loan, credit card, etc.). So if you apply for an automobile loan and your significant other co-signs for you, you are both responsible for the full repayment on the loan, on time, every month until it is paid off.

Co-signing also helps the primary applicant for a credit product get a better interest rate, or even just be approved for the product. The co-signer would be putting their reputation on the line so that you both can receive a service at a lower rate, saving money in the long run, or enabling you to receive said service at all. Regardless of your relationship, co-signing on any type of credit product means that you and your friend, family member or significant other are both responsible for the payment in full, even if the credit product happens to outlive the relationship itself. The same thing can happen if you co-sign on a credit card. If your co-signer maxes out the card with no intentions of paying it back, a large unpaid balance will be left on your credit report for all potential lenders and employers to see.

In closing, be aware that not all forms of credit are reported to the bureaus, a good credit score can affect your personal life, and co-signing on a loan is always worth thinking about (at least) twice!

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