Do You Really Need A Credit Score?

Scott A. T.: Yeah. Broadcasting from One Dallas Tower, it's the Scott Alan Turner Show, ready to help you get out of debt, save more money, retire early and become a financial rockstar. In the studio with me is producer Katie who loves to float at the lake. On the show today, I'm going to be answering your questions about money, business and life. This is your show, so if you have a question you'd like answered visit goaskscott.com.

I'm going to share with you a story from Theresa who says, "The thing is, you never know when you'll need credit, and when you need it, it's too late to get it. When I was 19, and driving back to college with a friend, my father gave me his credit card in case of an emergency. Something happened on the ride, and the car broke the crank shaft. We used the credit card to pay for a tow, get a hotel room and ultimately get a plane ticket back to college. We certainly didn't carry enough cash to do that back then. I think not using credit cards is fine, but not having a credit card or any credit no matter how much cash you have seems foolhardy, plus you don't know which things you're paying more for because you don't have credit. It's not as if anyone tells you. My sister had used credit cards to pay for her cancer treatment co-pays after she ran out of cash. You don't know what life will bring." That's the end of story.

There are a lot of people out there who make a lot of money, a lot of money, by preaching you to do things a certain way with your money and your personal finances. Some of the advice is good. Some of the advice is just downright abysmal, but because they provided some good advice, that one time or another, people are blindly following all of their advice. Well, what happens then? You end up making a decision without getting an education, and ultimately you can get ripped off. The sad part is most people won't find this out until 10, 20 or 30 years from now, until it's too late. Some are never going to find out.

The bottom line, trust but verify. If you do one thing as a result of listening to this show, and one thing only, trust but verify. You will come out ahead of 99.9999999% ahead of other people. You'll end up with more money in your pocket. You'll be able to retire sooner, sleep easier, give generously and achieve the life of abundance you know you can have and deserve. I do want to be clear. I love capitalism. I'm a capitalist. I'm not running a charity over here either. I love doing this show. I love to write. I love to help you out. I love to see you win. That's what motivates me, but I always want to make sure that you're getting the full story.

Let me share with you a couple of other stories I come across as to why you need a credit score. These are real stories from real people. This one's from Ellie. She writes,

"Working with young military members, I regularly run into people who have bad credit, because they never begin to build credit by getting a credit card. This is based solely on someone's teaching about credit cards. This translates into paying more for auto insurance, utility and rent deposits and so much more. Is it definitely a big difference between having credit and having debt? It's very important to distinguish between the two. I think for many, they believe that credit is debt, whereas it is a tool and if misused can turn into long term debt." That's story.

Here's another one from Elizabeth. "As a landlord …" Elizabeth is a landlord "… of 8 properties, I'm going to take someone with a 740 credit score … Yes, I checked their history to make sure they aren't tapped out … rather than someone with no score." That's someone who is a landlord who's going to take into consideration your credit score. She continues, "When my husband graduated from college with no loans … Thank you military scholarship. He had to borrow over $6,000 to get everything set up because he had never used a credit card; he had to have triple deposits to get places to let him rent.

He had to spend hundreds of dollars into deposits. It sure is not a big deal once or twice, but we are in the military, and we move all the time. When my husband was first starting out in flight school, he moved 4 times in less than 2 years. Honestly, the burden was only lifted once I came into the picture, and I got him a credit card. I think people have some amazing points. I love this idea of the debt snowball and having an emergency fund is important, but I don't like this philosophy of not having any credit for the military because learning how to use a credit card responsibly is critical." She continues, "Again, everyone is different, but personally, if we hadn't have learned how to gain credit, we would have been in a world of hurt with all the moving and requirements of our credit score."

Finally, last story from Ryan, he says, "Not having a credit score may not matter if you have the cash to pay for everything, and don't ever have plans in taking out a loan. No credit score also matters less when you're in an established home, and you aren't planning on moving anytime soon, and if you have a history of having insurance, utilities and other regular payments under your name, but not having a good credit score has a major impact if none of the above apply. Many young military members are moving out on their own for the first time. They have no established credit history, no credit score and no history of utilities or insurance under their name, and they have a difficult time because of these.

Most utility companies charge larger deposits to people without a credit score or history of having utilities under their own name. Renting a home or an apartment may also come with higher deposits. Some places may even refuse to rent to people without a credit history. Adding the fact that many military members move several times during their first 2 years of service, and this can be a difficult and expensive experience. Through our normal life changes such as marriages, children, long hours, deployments, temporary duty assignments and other fun things, and you have a recipe for a unique financial experience." That's the end of Ryan's story.

Bottom line, there's a lot of great advice out there when it comes to your finances, and there are other things people say that are well-intentioned, but they can be dangerous to your wallet and your purse. You don't want to be the lamb led to the slaughter, and you don't want to find out when it's too late, that a decision you made years ago because of something you heard someone said, and you took it as the truth comes back to bite you in the fanny. You've got to become your own expert. You've got to question everything. Credit is important, but using credit and how you use it is even more important. You've got to stay out of debt.

I just shared 4 real stories with you from people who said credit is important, but you've got to be responsible and learn how to manage it properly in order to get ahead, and that can be as simple as getting a credit card, charging $10 a month to it, and paying it off when the bill comes. It's that simple. You've got to have a good credit score. One other thing, some of the proponents of not having a credit score, they'll say whoaw, and when it's time to get our mortgage, you could just go find a mortgage company that does manual underwriting, and they won't look at your credit score. Well, that's all fine and handy, but that doesn't give you very many options if you want to shop around for the best mortgage rate.

If you're stuck with the few companies that actually do manual underwriting, and when it comes to new construction, let's say you want to buy a brand new house of which there were 600,000 built last year, clearly a lot of people are moving into new homes. When you go look at somebody's new homes, they usually have special deals where you won't have to pay closing costs if you go to their preferred lenders. Well, what if that preferred lender doesn't do manual underwriting? If they don't do the manual underwriting, then you can't use them. You're not going to get that special deal and having the closing cost waved. You're going to have to go find one of these manual underwriters, which may or may not give you the best deal, so by not having a credit score, you may end up paying more for your mortgage, more for your new home.

You are eliminating or reducing your options in that specific case, right? You don't have a choice. The preferred lender with that new home, they're going to say, "No, sorry. You don't have a credit score. We're not going to finance you." Then what are you going to do? Well, you're stuck with just those lenders who are going to do the manual underwriting, and as a final point, the people that push manual underwriting, they have big relationships, get paid big advertising dollars, big money for endorsements by these mortgage companies that do manual underwriting. Nothing wrong with capitalism. Nothing wrong with making money, but the best thing for you is to have the biggest array of options so that you can save the most money.

Now, on to your questions. Did I sound like a jerk just then? I don't know. Sometimes I may come across kind of jerky. I apologize, I apologize. I get irritated sometimes. I get a little fired up at this stuff. Apologies if I was being a little jerky. Natalie says,

Natalie: "We lost our house in 2012 doing cash for keys, and also defaulted on 3 credit cards. We got a new one since, Capital One, which we're paying over the minimum to build up my husband's credit. Currently, my credit is 586, and his score is 603. Three credit cards are in collection, and I plan to start paying on them this year, but wonder what the best approach is. We have one with a $10,000 balance, another with a $3,000 balance and the third with a $1,000 balance. We just need some advice on paying off the cards in collections and raising our credit score in order to retire later this year in a cheaper state."

Scott A. T.: Now, with unsecured credit, your medical, credit card, utilities, telephones, you have to be sued to collect that debt, and depending on where you are in the debt-collecting process, how big your debts are, you may or may not get to that point. Your best bet is to figure out how much you're willing to pay and can afford to pay for each of those debts, and pay them off in one lump sum. You can negotiate them down. That's the best strategy for you to do. When the debts are in collection, those debt collectors, they've bought those debts for pennies on the dollar. They're just looking to recoup some of that money that they've bought. Typically, it might be 10 cents for a debt.

For your $10,000 debt, they may have bought that debt from the credit card company for let's say $500 or $1,000. That might not be what they're looking … They're looking to make a little profit, of course, but you can negotiate for less. Now, how do you go about doing that? A couple things you can do. In the show notes, I'll include a link, but there's a company called Nolo. They help with these types of situations, and they have a letter and a process. You can get what they call the offer to settle debt where they reduced lump sum payment. It's a letter. It helps you settle out any outstanding debts you have for less than what you owe. It is $10 to buy the form on the website, but if it saves you time and thousands of dollars, it's worth the 10 bucks.

You can go that route. You can also look in at getting help from one of the legitimate credit counseling services, National Foundation for Credit Counseling NFCC. They're at nfcc.org. Go on that website. You can find a local office near you. They offer free and low cost debt counseling. They probably have similar letters. You can go meet one of their counselors, but some of the keys in going through this process; you're going to agree with the debt creditor company on an amount to settle on. You want to again, figure out what you can do in a lump sum preferably, rather than doing monthly payments. You'll probably get a better deal. You just want get this stuff off your plate. You'll want to get everything in writing before you make any type of payment. You want to pay with a cashier's check because you do not want these people in your checking account. Do not give them access to your checking account. Never do that. They'll clear that out. Some of them are unscrupulous. They'll take whatever they can out of your account and you're just not going to get it back.

Along with an agreement that you're working out with them, you can see if they're willing to forgive the portion that they're not collecting from you, and report that debt as paid in full on your creditor bureau, instead of as a settled account. That will look better on your credit board.

Also, you'll want to consider if the forgiven debt is more than $600, the creditor might report that to the IRS as income, so you're going to get a form, and you're going to pay taxes on that amount. Don't let that to surprise you. If that happens, you're going to get a tax bill that you're going to have to come up with. Do not work with debt settlement firms. There are just too many unsavory characters and companies out there. They're just after your money. They're making false promises. Also, don't work with credit repair companies. The best way to repair your credit is to make on-time monthly payments, don't have any late fees, don't make any late payments and pay off your balances each month. Just pay your bills on time, pay off your balances. That is going to build your credit. My take, 1 to 2 years for your score to come back up, but it will come up if you do those things. Thanks for the questions, Natalie.

Motif is an investing platform. It's one of the newer investing services. It lets you pick different segments or trends to invest in. For example, let's say you think the future is self-driving cars, which it is. You can invest as much in companies that relate to that trend. According to the Motif website, it lets you invest in things you understand based on how you feel about the world around you. Awesome. You're investing based on your feelings and your own brilliance. That's the best way I know of to invest. No, not at all. I know you're brilliant because you're listening here right now trying to get smarter than you already are.

I was doing Motif investing even before Motif Investing ever existed. It went like this. I bought a little Yahoo. I bought a little Intel. You've heard of those companies. I bought a little Cisco, may or may not have heard of that one. I bought a little HDR. That was a biotech company, and a little EMC. That was another internet networking company, and at the recommendation of the rule breakers over at the Motley Fool, fool.com. That's a stock making website, for the most part, I bought some Caterpillar stock, which they said was going to be amazing. Caterpillar, they make the big earth movers. They are the real world Tonka trucks. Those were good enough for me because they told me so. That was going to work, or at least they recommended. It was a buy. They didn't tell me to do it.

Same thing. Picking things I understood or sounded reasonable and I watched my investments, and these individual stocks boom, skyrocketed. No, they lost $40,000. The majority of what I had invested. I bought at the top, and sold at the bottom, like what most people do, and decided I'm not going to do that again. I know you see these 1 in 3 year returns on some of these websites on homepages of these investing services, and how they change everything you've been investing in. You waver a little side sigh, and say, "Oh, men, they're making 27%. I only made 8% last year."

If I thought it was a good idea, don't you think I'd be telling you to get in on it? If you honestly believe I want you to save money, get out of debt and build wealth, what I constantly harp-in about these boring index funds or I'd be hyping up the next hot stock everyday like you see on the nightly business shows, or would I'd be selling you some product or service I made up on how to beat the stock market, or some product or service I get a commission on, or pay me a referral fee, or gave me kickbacks? Boring investing works. It works over the long haul. It's not glamorous. It's not exciting. It's not exciting like the soft driving cars. It's not. Unless you think financial freedom is glamorous, then it is exciting.

Back to your questions. Andrew says,

Andrew: "My wife and I would like to get our debt snowball going, and wondering if we should cash out my 401k with

$75,000 dollars in it to begin the process. I'm 35 and she is 33. We earn about 70 grand a year, we owe 150 on our primary house. We have no credit card debt, no student loan debt and no car debt." That's awesome. "We have $15,000 in savings. We also have an LLC holding for rental properties, with gross rents of $7,500 a month and expenses including debt service of $6,000 a month. We owe approximately $400,000 on the properties, and the retail value is $900,000 on them. Should we cash out the 401k? According to my calculations, I would have everything paid off in 7 years or keep clogging away, and it will all be paid off in 11 years, or should we sell one of the properties and use the proceeds to pay down the remaining properties?"

Scott A. T.: What I'm hearing is you're nervous about carrying the debt, and I get that. It's one of the reasons I paid off my house early, never to worry again, but if you cash out your 401k, you're going to get about 45 grand after the taxes and the penalty. The biggest hit is not the taxes and the penalty, is you're never going to make that money up. Even with the market down right now, that is 7 years that money can't grow. I gave an example on the show awhile back. I'm not going to repeat it. There's a lot of math, but if you compare someone who doesn't invest and pays their house off for 15 years, and then starts investing, to someone who starts investing, and takes 30 years to pay off their house. The person who starts investing and has the 30-year mortgage ends up with a lot more money, and when I say a lot, I mean a lot more money. You don't want to be house-rich and cash-poor, which is what you'll be if you cash out the 401k, even a small 401k.

Since you've run the numbers already, I'd encourage you to run some different scenarios, but for me, I'm not going to take a 10% penalty and pay all those taxes just to whack a few years off having the rental homes paid off. The only time you want to cash out a 401k, only if times are absolutely desperate. You're facing a bankruptcy, a foreclosure, just dire, dire circumstances. We don't want to treat it like a piggy bank.

For your peace of mind, which I really think you're trying to get at, I would increase your emergency fund. I would probably double it from 15 to 30. Right now, you're at risk because if you don't have a renter or renters for a period of time, and you have to cover that mortgage yourself, you're going to run out of money real quick, but overall, you guys are in great shape. I'd focus on increasing your savings first. That's going to give you that peace of mind, getting the company match, at least in your 401k. Don't delay that. That's free money. As soon as you get all your debts paid off, and then just keep paying down the rentals. That's going to be your best bet in the long run. Thanks, Andrew, for the question.

Time to waste another 40 seconds of your life, or 20 if you're listening to me on 2x speed. You're listening to Scott Alan Turner.

Hey, Nation. It's Scott Alan Turner here. Now, for those of you that are my long time listeners, you know I'm not one of those guys on the radio who promotes every part that shows up on my desk. You're never going to hear me trying to get you to buy a snow plunge service from some company in Florida, or recommending to buy neckties from some company in Little Rock, Arkansas. No. I have a name, all to you, my wonderful listeners, but if I were to recommend something to you, I would tell you about Helium. Helium, if you don't remember from high school chemistry class, is a rare Earth element. Number 1 or number 2 on the periodic table, I think, and we're running out of it, which means the price of Helium is set to take off like a hot air balloon. Helium is going to be worth more per ounce than the price of gold. You can buy helium today at any flower shop or grocery store, stored in the attic in those balloons they give you, and watch your investment rise. Tell them Scott Alan Turner sent you.

Welcome back. That's a Nirvana rip off, if you've ever heard one. If you have a question you want answered on the show, the website's goaskscott.com.

Mark from Plano, Texas asks if money from college savings plans can be used for study abroad? He writes,

Mark: "My daughter's a full time college student attending on both a state-sponsored college plan, the Texas Tomorrow Fund and a 529 that I set up for her when she was born. It's been a blessing not having to worry about paying for her college expenses. She's planning to attend school in Spain this summer. My question is, can any of her expenses, airfare, local transportation, tuition, room and board, excursion, tours, et cetera, be paid for with the college fund plan, her 529 or both?"

Scott A. T.: Spain. That's is going to be an awesome trip. The bulk of study abroad expenses can be paid through withdrawals from a 529 plan. That includes your tuition, your fees, approved room and board and the huge one, textbooks. What's not covered? A weekend getaway to France or Italy or every other place you'd want to go see if you've over in Europe and have some time, unless they are travel-related. If your daughter is getting an Art Degree, for example, and takes a side trip to the Louvre Museum to draw some statues one weekend, you might be covered for that trip. Your international air travel, your train fares, sorry, those don't meet the requirements of the 529 plan either. Neither do foreign transaction fees when you're at the ATM and healthcare costs.

She's going to want to get short term international health care in increments of 30 days once she goes over there. It's a good idea just in case something does come up. For room and board, you're going to want to compare what the university-supplied housing includes. Compare that to renting a nice villa in the hills. The villa might be cheaper, but the official university housing, it's more likely to meet the IRA-approved funding. You have to weigh the cost to see which one makes more sense. What I'd do is give the school a call, that's just doing a studying through, the one here in the States, not the one overseas, and get them to send you some specifics. Maybe the university here can include the cost in her semester bill, then you just take the 529 money sent to the school. That's super simple.

That doesn't raise any red flags with the IRS. Your Texas Tomorrow Fund, which is prepaid tuition, that can be used for study-abroad expenses, as well. If the study is through a US University, an accredited international institution or some third party program, proprietor for the transfer credits, your Tomorrow Fund can be paid through the Texas University. Again, contact the University, their study abroad program, and get help with that billing because there's some pre-approval that you're going to want to go through. There's a process due for that. You get on that ASAP, and get the paperwork going. Summer in Spain is going to be amazing, and you know what? It's going to be hot. It's going to be hot in Spain in summer. Katie went there last year or the year before that in August, I believe. It was hot. Thanks, Mark, for the question. You should plan on visiting your daughter for a week as well. Get her to show you around. Europe is awesome. Everyone should go. Thanks, Mark, and happy travels to your daughter.

Roger's up. Before we hit his question though, let me share with you Roger's story because it's going to inspire you. Here it is,

Roger: "Seven years ago, I was living in California with my wife, then girlfriend, and we were living this stereotypical financially irresponsible life. We are both teachers, so annual salaries were not staggering, and we are living the surfer paradise dream in California, sushi dinners, new surfboards, nice bottle of wines. Why not? We deserve it. We're good people teaching in rough school districts. I deserve a new surfboard and sushi rolls this weekend. I recall a recent episode where you referred to this type of thinking as mental trash.

We decided to make the move towards international teaching for a riot of reasons. We love to travel, but teaching is far better, professional experience, salaries and perks are outstanding as far as teaching goes, and we loved to travel. We were hired in the Seoul International School in South Korea. We left the US in 2009 with $6,000 in credit card debt, and no assets. We didn't own a home, we sold our cars and everything we could not fit in our duffel bags. The beauty of international living is that our salaries are tax free and the salaries and bonuses tend to be very nice. After just 3 months in Seoul, we had our credit cards paid off, and were starting to accumulate money in the bank.

I said to myself, I need to do something with this money, but I don't know what, so I got to work. I read every personal finance book that we had in our high school library, such as A Random Walk Down the Wall street." Great book. "The Intelligent Adviser, Rich Dad, Poor Dad and a bunch of other ones. I also tried watching videos on Investopedia, Vanguard, reading articles and learning everything I could." He continues, "After 4 years in Korea, we moved to Saudi Arabia, to a different international school. We've been there. We now have a quarter million dollars in investments, a cash cushion, a monthly and annual budget, and we have traveled the world to a degree that many people don't get to experience in a lifetime. We have 2 sons. They both have 529 plans. My wife has a Master's degree. I have 2 Master's degree. We have no student loans.

Part of the reason I was on your show is I already know a lot of what you're saying, but it feels so good to be reaffirmed of what I'm doing, and to just hear it again. Having those reminders is very important to a healthy financial life. I've also started a little brain trust out here in Saudi Arabia where a group of us guys get together and talk money about once a month. It's a great way to share ideas, and be talked off the ledges."

Scott A. T.: That's Roger's story. Way to go, Roger. From being in debt, from sushi and surfboards to traveling the world and being loaded. I love it. You're on the band, dude. When Katie and I visited Cairo, for those of you who don't know, Cairo is in Egypt, and Egypt is in Africa, we stayed with her friend Stephanie who was a teacher there. She taught internationally as well a few years back, before the chaos in the revolution over there.

International teaching, for those of you that are teachers or pursuing teaching degrees, awesome way to see the world, it is, like Roger mentioned. Now, Roger's question is, "You always mention that the average return on the stock market over the long holiday is 10%. Can I ask where you get this figure from? I was looking into this, and read an article on Investopedia that discusses the impact of inflation. I know you are well-researched and so I looked on their website, couldn't find anything on it. Are you talking 10% before inflation or is there a different source to confirm the 10% return?" Yes, Roger, test me. Believe nothing I nor anyone else says without doing your own research. Trust but verify. I googled the same thing while I was getting ready to answer your question, and it stumped me, too. I've known this for a long time. Everywhere has 10%, but nobody shows the math behind it, so here's what I found.

I found a spreadsheet from 1926 to 2014, and this link will be in the show notes. It's a Wikipedia site, but they include all the numbers from each year in a Google spreadsheet, so you can check the math yourself. It ended up coming up to 9.58% using a compound annual growth rate. That's 10% rounded up. That's where we get 10% from, and yes, it's 10% before inflation. I don't mention inflation a whole lot, unless it's in regards to staying in the stock market compared to putting cash under your bed, because if you stick cash under your bed, your money becomes worth due to inflation.

When we're talking returns in investments, you don't see the numbers including inflation. Why? Because it makes your numbers look worse, right? You're not going to see someone trying to sell an investment at 8% just from inflation. They're going to say no, this investment makes 11% if they can get that. After inflation, yes, you're talking about 7% return rate, but if you just add cash into the comparison, your money would actually be at negative 3%, right? Because of inflation, which is roughly 3%, so it comes out the same. You've got to earn at least 3% to avoid your money becoming worth less. Not worthless, as in worth nothing, but worth less. Thanks, Roger for that awesome story, and sharing your debt-free story, and for being a listener. Continued success to you.

Over in the Facebook community, Matt said, "Our 4 and 7-year-old daughters sold some unused dollhouses to bring in some extra money for themselves." That's great. Teaching young kids to exchange unneeded stuff for money, that they can do other stuff with. Chris over on the YouTube channel says, "Using Acorn to invest my spare change because that's all I have right now. I noticed that changed in how I manage my money beyond just stocks, I get money with the attention of building for days, months and years. Literally, multiple saving accounts with that in mind. It's been very effective.

Buying these stocks just gives me extra peace of mind, that even if my saving plan fails or I have to dip into that money." Great job, Chris, giving a perfect example of just getting started. If all you have is spare change to start your savings plan, start with spare change because every bit makes a difference over time. Just get started. Just get started, then if you're started, take a word from my good friend Dory, "Just keep swimming," after you just get started, just keep swimming. Those are the words. That's it for this episode. I'm your host, Scott Alan Turner. Rockstar, Katie is my producer. All the links mentioned in the show are put on the show notes. Scottalanturner.com. If you have questions you'd like answered by me, visit goaskscott.com. Just send me your question, get them answered on the show or hey, just say hello to me. Introduce yourself. Thank you so much for listening.

Announcer: Okay, Nation. For your free copy of The Guide: How To Save $1,000 In 1 Week, simply subscribe to the podcast right now on iTunes, and text the word "saving" to the number, 33444 to prove that you did it. Subscribe now to get out of debt, save more money and retire early. See you next time.