

WiSe Up Teleconference Call  
February 28, 2006  
“Becoming Credit Smart”  
Speaker 2 – Diahann Lassus

Jane Walstedt: And now, let me turn the program over to Patricia Gaviria from the Women’s Bureau’s Regional Office in New York City to introduce our second speaker. Patricia?

Patricia Gaviria: Good afternoon everyone.

Diahann W. Lassus is Co-Founder and President of Lassus Wherley, a wealth management firm with offices in New Jersey and Florida.

She earned a Bachelor’s of Science Degree in Management from Florida State University and an MBA from the University of North Florida. Diahann worked for Western Electric, and in 1984, she was AT&T’s Field Operations Manager for the Special Project Olympic Operations in Los Angeles, creating the largest temporary telecommunications network in existence.

Diahann taught Organizational Communication and Corporate Social Responsibility at the University of New Orleans, and also taught at Upsala College and the College of Saint Elizabeth.

She is an accomplished author and lecturer with articles appearing in publications, including the *Wall Street Journal*, *USA Today*, and *Investors Business Daily*.

Diahann was named one of *Worth Magazine*’s Top Financial Advisers an unprecedented six times, beginning in 1994 with the top-60 list, and most recently the 2004 Most Exclusive 100.

It's my pleasure to welcome Diahann.

Diahann Lassus: Thank you very much. Good afternoon.

I am going to cover two basic areas in my discussion. The first is a general discussion about debt; the second is building or rebuilding your credit.

There are many ways to think about debt, but one way is to classify the debt by type. We call this the good, the bad, and the ugly.

There are instances where the leveraging power of the loan actually helps put you in a better overall financial position. This is the good debt. It includes buying a house, since most of us can't afford to pay cash for one. Homes tend to appreciate in value over time. The low interest rates we have experienced over the last few years also have allowed many more people to enter this market and own their own home. When you add the extra benefit of being able to deduct interest and real estate taxes from our income tax returns, housing becomes even more affordable.

Another good type of debt is a car loan. Since cars have gotten so expensive over the years, most of us need a loan that allows us to spread the cost over time. Cars are a necessity for many because they provide transportation to and from our jobs. Even though we classify this as good debt, we still need to be careful about how much of our income is allocated to paying our transportation costs, including that car loan.

The third type of good debt is education loan. Education loans are really an investment in your future and can significantly increase your

long term earning power. Many of these loans have guaranteed low rates. You may not have to pay interest until after you graduate, and the interest paid may be tax deductible under certain circumstances.

Note that with good debt, we were either buying an asset that lasts for quite a while with a house or a car or we were investing in our future with education.

Now let's talk about what we mean by bad debt.

Anytime the credit or debt lasts longer than what we purchased with the credit, it's probably going to fall into what we categorize as bad debt. Items that typically fall into this category are clothing, food, gas, eating out, and other goods and services that lose value or aren't around by the time we get the bill.

Then it goes from bad to really bad if you're not able to pay off the debt on a monthly basis. Making the minimum payment on credit cards for these types of purchases increases the overall cost significantly.

As an example, let's say, you bought \$200 worth of clothes in January and charged it to a credit card with an 18% interest. If you're paying minimum payments, by the time you pay off the clothes, you've probably already donated them to a charity.

Not only that, but think about that 18% charge as real money out of your pocket. If you've paid cash for those clothes, you would have kept between \$30 and \$40 in your pocket that you now paid to a credit card company in interest.

Now, let's talk about the ugly. The ugly is reserved for those "I can't afford, but I'm going to do it anyway" credit card charges. It typically consists of things like those trips that you really couldn't afford but decided you deserved, and maybe that show that you just had to see because everyone was going. These items typically follow in the entertainment or "keeping up with my friends" category.

The key to managing or controlling your debt or credit is to start by defining your objectives in terms of an expense planner budget. Make sure you understand the difference between a need and a want. Once you do, walking away from those purchases that you want but don't need becomes much easier.

Reducing the bad and the ugly are the keys to taking control of your credit and building a long term healthy financial plan for yourself. An important part of that plan is reducing or eliminating impulse buying. Another is not carrying that credit card when you know you're going to be tempted.

We could spend a lot more time on this area, but let's move on to building or repairing your product.

Whether you're trying to build credit for the first time or trying to re-establish good credit, the steps can be very similar.

First and foremost, you must make sure you pay all of your bills on time. This includes mortgage or rent, car payments, telephone, utilities, credit cards, and any other outstanding bills that you may have.

Let's start with establishing credit for the first time.

You need to open a checking or savings account in your name probably with a bank or credit union that offers a national credit card program. Then, after you've been with them for a few months, you can try to establish a credit card with them. Once you get a credit card, don't get carried away spending that found money. Make sure you only charge the amount that you can easily pay off monthly. It's very tempting when you get that first credit card.

Another step is to apply for a charge account at a local department store. Again, I can't emphasize enough the importance of being able to pay off those credit cards on a monthly basis.

You can also open a secured credit card account. With this type of credit card, you deposit money with the card issuer -- in many cases a bank or credit union -- that will be used if you don't pay your bills. So you give them your money and they give you a credit card, and then if there is a problem with payments they know they're going to get their money back. So they're a lot less concerned about whether you have established a credit history.

If you're turned down by a lender, try another one. There are many different lenders and each of them uses slightly different criteria in their evaluation.

If you have difficulty with any of these steps, you may want to apply for a loan with a co-signer. This is someone that already has an established credit record who agrees to make payments if you don't. This may help you get that first loan. You still need to make those payments on time in order to establish that good credit history.

What if you have a not so good credit history and want to repair it?

Some of these same steps still apply. You must demonstrate that you're making all of your payments on time.

You've already heard about how important credit reports are, so the key is for you to improve yours. It takes time to erase negative reports on your credit history. It takes time, a focused effort, and a plan for paying off current debt to improve it.

The key to a successful credit repair is not just getting rid of the negative interest but also demonstrating that you're able to establish and repay your account.

This means you need to follow the same steps to rebuild that you did for establishing new credit. You may need to start small with that secured loan if you're not able to get a regular credit card because of your negative credit history.

This is a great way to start the process of building positive history. Make those regular payments and get started quickly building. Use any new accounts in moderation and make sure you're able to pay them off monthly.

If you aren't able to qualify on your own, again you can ask a friend or family member to co-sign. This may be a way even with a small auto loan or something like that for you to really start rebuilding your credit history. Whether you're just beginning or starting over, it takes time to build a positive credit history. You have to demonstrate that you're taking control of your finances by paying on a timely basis and not increasing your debt exposure unnecessarily.

With focus and consistency, you can build or reestablish a positive credit history.

Jane Walstedt: Diahann, are you through?

Diahann Lassus: Thank you, I am.

Jane Walstedt: Okay. Thank you very much for that helpful information.

Your example reminded me of an Oprah show I was watching where there was a couple -- it was about money. There was a couple on there. The bride wanted to borrow \$40,000 for her wedding and the - I don't think the groom thought that was a very good idea.

But I believe it was Suze Orman who was on the show and had them guess how long it would take them to repay that \$40,000 given their other loans. And the answer: they would never repay it.