CCMS July Newsletter:

Healthy Finances: How Unsecured Debt Can Affect Your Borrowing Power

By Mark Andrews, Chief Marketing Officer at Clark County Credit Union

Many medical professionals leave school with debt and are later faced with the tough choice of whether or not they should accrue more debt and interest on top of student loans, should they decide to open their own practice. Other events that may require a loan include buying a building, renovating an older practice, keeping up with the latest technology and equipment, buying an existing practice or buying out a retiring doctor. All of these options, and more, can lead to debt.

Not all debt is bad. In business, debt can be used carefully as a tool to build a practice, improve professional capabilities, or to reconfigure a balance sheet with an improved net worth as the goal.

Each of the above scenarios represents forward momentum in a medical career. However, certain debt, like credit cards, can affect a doctor's ability to secure the additional loans needed for the exciting progress a practice leader may have planned. There is other debt that won't impact your personal and commercial lending, such as a car loan. This is secured debt since it is tied to an asset. It is the unsecured debt that is more risky as it is tied only to the borrower's estimated creditworthiness. Unsecured debt can be unhealthy and in fact harmful to credit scores and your borrowing power.

Secured vs. Unsecured Debt
Let's take a quick look at the two types of debt one may incur and how they stack up. When one compares the list of characteristics, it's clear why a lender would prefer one type of debt over another:

<u>Secured</u>
*less risk
*requires collateral
*higher borrowing limits
*lower credit score
*examples: mortgage, auto

<u>Unsecured</u>
*no security assets required
*based on borrower's creditworthiness to pay
*decreased credit scores
*higher risk/interest rate (because there is no collateral)
*examples: credit cards, medical bills, gym memberships, child support

But What About Medical School Loans?
Student loans are in a special category since they can be secured loans or unsecured loans. Federal, subsidized or unsubsidized Stafford Loans are guaranteed by the federal government and are therefore considered secured loans by lenders. But if you go to a private bank or credit union and get a student loan, those loans are not guaranteed by the federal government and

are considered unsecured loans, which carry higher risk of default.

Improve Borrowing Capacity

A new loan may be necessary to help grow your practice or get the updated technology you need to stand out from other medical practices. So how can you improve your chances of getting that business loan?

1. Pay off credit card debt as quickly as possible.
2. Get a copy of your credit score and work to clean up any issues like unpaid bills, late fees or bureau reporting mistakes. Guidance on how to do this can be provided by your credit union or bank.
3. Cancel high limit credit cards you aren't using.* Lenders will take your potential debt into consideration, so a high limit on an unused card represents a red flag to some lenders. *Timing is everything – don't do this the same month you wish to apply for new debt. Wait about 60 days for the credit bureaus to resettle their scoring.
4. Keep your revolving balances at about 30% or less than the full credit line. And strive to pay off the full balance monthly for best score results.
5. Consolidate unsecured debt into a secured loan like a home mortgage or a home refinance. These can include both personal loans and credit card debt. This combined loan, though larger, looks better to lenders since it is secured debt.
6. Choose a lender that is willing to work with you on a loan arrangement and who may even offer second-chance financing. There may be a higher interest rate but these lenders, often credit unions like CCCU, are more likely to make the loan, even with unsecured debt.

Take control of your debt today so you are ready when you need to get that extra commercial loan for your practice. With the right lending partner, you can increase your borrowing capacity and even your credit score. Contact Clark County Credit Union, the medical professional's credit union, for rates and terms for commercial loans.

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