

How much total ‘credit’ should a couple have?

Is access to \$50,000 enough for emergencies?

by Janet Gray
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Q: I’m wondering how much total ‘credit’ I should have? My husband and I have a few credit cards and two Line of Credit (LOCs) between us totalling about \$50,000. We don’t have a habit of maxing it out and we pay it off fairly regularly. I’m being offered another LOC from one of the banks for \$15,000 for 5.35%. Although I don’t need it, I’m wondering if it makes sense to have it ‘just in case’? We don’t have a three-month emergency plan but our credit score is very good—750 for my husband and 776 for me. What are your thoughts? Pros? Cons?

—*Krista*

A: Good job—you both have excellent credit scores. The short answer to your question is there is no right amount of credit. Credit should only be necessary when you don’t have the cash on hand to pay the expense.

Do you have a plan to deal with unexpected emergencies such as job loss or illness, or infrequent but foreseeable expenses like home or car repairs? Either a credit product, your own savings, or sometimes an insurance product (long term disability or critical illness insurance) will help to pay for the cost. But planning for these expenses will eliminate the reliance on credit—and the payment of interest. Or, if you do use credit, what is your plan for repayment?

As far as the credit reporting agencies are concerned, it’s not so much a matter of how many credit products you have (credit cards, lines of credit, mortgages), it has more to do with the usage of those products. If you have five credit cards and each has a \$1,000 balance (against a \$5,000 limit each) for a total of \$5,000, that is viewed more favourably than having one credit card with \$5,000 balance (against a \$10,000 limit).

The three most important factors to consider are:

1. Payment history – Are you making the minimum payment required on time every time? This accounts for almost a third of the score.
2. Credit utilization – Are you keeping the balances on your revolving credit (typically credit cards) below 30 per cent of available credit? This accounts for another third of the score.
3. Acquiring several credit accounts over a long stretch of time is fine. But opening too many at once is viewed by the credit bureaus as a sign that you’re in financial trouble and your score might take a ding. In fact, 10 per cent of your score comes from new credit inquiries. It also helps to wait several months between new credit applications to keep your score in good shape.

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