



How to Establish And use Credit

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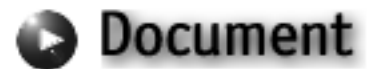
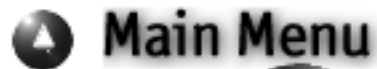
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Description:

Discusses how to qualify for credit and use it wisely.



This document may be printed.



How to Establish And use Credit

A WAY OF LIFE...

Buying on credit has become so much an everyday occurrence in our society that many people look on credit as an inalienable right. In fact, it's a privilege and convenience available to those who are creditworthy.

What makes you creditworthy?

QUALIFYING...

Creditors determine whether or not you're a good risk by evaluating:

- Your *ability to repay*, as indicated by how much of your income is left over after you pay your basic expenses every month;
- Your *assets*, such as a house, bank account, or insurance policy--anything that would serve as security for the creditor if you couldn't meet your payments; and
- Your *credit history*, showing what debts you've had before and how you've managed them.

Your *attitude* is important, too, because the creditor has to decide whether you're the kind of individual who will act responsibly in using credit. *Appearance* and *behavior* have been known to influence a creditor's decision.

LIMITATIONS...

You may qualify in all respects except credit history--evidence of your reliability--which you lack for one of these reasons:

- You're young and working at your first job.
- You're a married woman and until now have relied solely on your husband's credit, which you did not help to build. (For further information, see the paragraphs under "OPPORTUNITY.")
- You've recently been divorced or widowed and have no separate credit history. (Again, see the paragraphs under "OPPORTUNITY.")
- You've always paid cash for what you bought before, even automobiles, furniture, and appliances.

BEGINNING...

Building a credit history takes time and patience. You may have to start in a small way and build up slowly. If you are determined to do it, here are some suggestions:

- Establish a savings and/or checking account. Creditors look on them as evidence that you're able to handle money.
- Borrow against the security of your savings account at the bank. The interest you pay on a "passbook" loan will be partly offset by the interest your

account keeps on earning, so the loan will cost you less than a regular small loan would.

- Ask for a small loan and deposit it immediately in a savings account. While you pay off the loan, you're earning interest on the deposit; and that cuts down the cost of the loan. The important thing is that you are developing credit history. Whether it is worth the cost to borrow money you don't really need is a judgment you'll have to make.
- If you can't get credit on your own, you might ask a relative or a friend who already has a good credit standing to cosign your loan application and share your liability.
- Buy something on time at a major store.
- Open one or two local department store charge accounts and pay your bills promptly. Frequently this is a stepping stone to other kinds of credit. But don't open too many accounts; creditors worry if you have widespread access to credit.
- Apply for a gasoline credit card.
- Apply for a loan against your car or a loan secured by another of your assets.

PERSISTING...

Even if you've had credit before, you may be turned down when you apply for a loan or a credit card. Why?

- You may not have held your present job or lived at your present address long enough. Some creditors require two or even three years.
- You may have too much to pay on your present accounts.
- Your purpose in requesting credit may not seem reasonable.
- Your cosigner may not be able to afford to take on any new liabilities.
- Your credit report may contain erroneous information. Check with the credit bureau.
- Your creditor may have unusually strict standards. They vary quite a bit.
- Sometimes lenders don't have enough funds available to use for certain kinds of loans.

If you believe you're creditworthy, keep trying to establish your credit. Don't be discouraged. Shop around. Persistence has a way of paying off.

OPPORTUNITY...

The Equal Credit Opportunity Act prohibits discrimination in granting credit on the basis of sex or marital status. That prohibition extended to discrimination on grounds of race, color, religion, national origin, age, receipt of income from assistance programs, and exercise of rights under the Consumer Protection Act. The Act also provides that an individual may choose to rely on the credit history of a spouse or former spouse if it can be shown that the individual helped to build up that history--by using a spouse's account, helping to manage it, budgeting, or paying the bills.

WARNING!...

Borrowing can be addictive and may be dangerous to your financial health. Remember:

- Credit isn't more money. It's a convenience that lets you enjoy certain benefits now that you'll have to pay for later on.
- Credit usually isn't free. It's paid for by interest charges that vary with the type of creditor, kind of credit, and the time period involved.
- It's important to keep your payments up to date. If you run into a problem because of unforeseen difficulties, discuss it with your creditors.
- It's just as important to keep track of how much you owe overall, so that when you do get your credit established, you won't take on more debt than you can handle.

BORROWING BAROMETERS...

How much debt you can handle depends on your family situation, assets, income, expenses, employment status, age, health, and a lot more.

Here are two rules of thumb:

- If, mortgage aside, your whole debt is more than 20 per cent of your yearly take-home pay, you may be in too deep.
- If your monthly payments are more than what's left over from your weekly paycheck after basic expenses, you may be headed for trouble.

Weigh the pros and cons. Borrow only after making sure that you can handle the debt, that the purpose is worthwhile, and that *now* is the right time.

BENEFITS...

Credit's a good thing when used wisely. It lets you buy necessities when you're short of cash and luxuries when you want them. Without credit you might have to put off buying what would be useful or desirable.

But, like other good things, credit can be misused. The people who get the most out of credit understand that

Credit isn't a right to be expected, It's a privilege to be protected.