



Managing Money & Love



Issue 6: Establishing Credit

Credit has become a way of life for many people. Using credit in today's society is so common, it often appears to be a necessity rather than a convenience. Regardless of whether you are trying to reserve a hotel room, order by phone from a catalog or apply for a home loan, some form of credit will likely be required. Each time you buy, you must make the choice to pay cash or to use credit.

Never forget that credit costs money. Finance charges, including interest payments, annual fees, late payment fees and over-the-limit fees, can add up quickly. Failure to realize the **TOTAL** cost of credit can lead to debt overload.

Remember, when you use credit, you are spending future income. Since bills don't arrive for a month, it's tempting to overspend. Families should discuss the use of credit and how to use it to their advantage.

Working together, review the list below, and check the items for which you would use credit. Then, discuss the advantages and disadvantages of each.

	Your Answers	Other Family Members'
Clothes		
Buying a car		
Christmas presents		
Groceries		
Vacations		
Ordering from a catalog		
Emergencies		
Gambling		
Impulse buying		
Gasoline		

If used wisely, credit can help you. When credit is not used responsibly, it can cause big trouble. Learn to be "credit wise."



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Your Credit History

Once you begin to use credit, you establish a credit history. A credit history is a record of whether or not you have repaid debts on time and according to signed agreements. This record also includes a list of everyone who has accessed your report for up to two years. These are called “inquiries.” The agency that maintains credit records is called a credit bureau. When you apply for credit, a credit grantor looks at your credit history to determine if you are a good credit risk. You can see why it is important to have a credit history that shows you have paid your debts on time.

If you’ve never had credit, you probably have no credit history. Take these steps to establish credit for the first time:

1. Maintain steady employment.
2. Open a checking and savings account, and use them responsibly.
3. Apply for a gas or department store credit card, and make prompt payments.
4. Ask a relative or friend who already has a good credit history to co-sign a small loan. Pay the loan back promptly.

How Much Credit Can You Afford?

Since no two families are alike, there are no hard and fast rules to determine how much credit you can handle, but there is a guide. No more than 20 percent of monthly take-home pay should be used for consumer credit. Use the form to determine if your debt load falls below 20 percent.

Vehicle Loan(s)	\$
Furniture/Appliance Loan(s)	\$
Credit Card 1	\$
Credit Card 2	\$
Credit Card 3	\$
School Loan(s)	\$
Other	\$

$$\frac{\text{TOTAL CREDIT DEBT}}{\text{MONTHLY TAKE-HOME PAY}} = \% \text{ DEBT LOAD}$$

Requesting a Credit Report

If you’ve been turned down for credit within the last 60 days, you are entitled to receive a free copy of your credit report from the credit reporting agency that supplied information about you. These are the three major credit reporting agencies:

Experian	Allen, TX 888-397-3742	www.experian.com
Equifax	Atlanta, GA 800-685-1111	www.equifax.com
Trans Union (Formerly TRVW)	Chester, PA 800-916-8800	www.transunion.com

Even if you have not been denied credit, it is a good idea to check your credit report at least once a year to make sure everything is correct and you are not a victim of identity theft. Identity theft, where someone else uses your name or credit unlawfully, is becoming more and more common. Although credit reports generally cost around \$10, a new law went into effect in 2005 giving you the right to get one free copy of your credit report from each of the three credit bureaus each year by following these instructions:

To order your **FREE CREDIT REPORT**, visit www.annualcreditreport.com to apply online or print a form to order your free credit report by mail. You may also order by calling 877-322-8228.

Free credit reports are available only from the annualcreditreport.com web site. If you order directly from a credit bureau, you may be charged. There is no provision to receive a free credit score. Credit scores are available, but there is a fee.



Credit Scoring

The information in your credit report is used to calculate a statistical credit score, usually ranging from 350 to 850. Credit scores help lenders decide who is most likely to repay in full and on time. This reduces the risk of losing money. Consumers with higher scores may qualify for loans with the best terms and lowest interest rates. Scores below 620 may mean higher loan costs.

To improve your score, concentrate on these points:

- **Pay** your bills **on time**.
- **Keep balances low** on credit cards and other revolving credit.
- **Use** a **few credit cards** consistently over time, rather than switching to a new card often.
- Apply for and **open** new accounts **only as needed**.

Checklist on Getting Credit

Although credit granting policies vary, here are some basic criteria creditors consider when you apply for a credit card or other type of loan.

Your chances of qualifying for a credit card or loan increase if you have any of these:

- No major blemishes on your credit report, such as bankruptcy, nonpayment turned over to a collection agency, a repossession or a 90-day delinquency.
- Active accounts that show the information you have provided is valid. Creditors prefer that you have at least two active open accounts – one that has been active for at least two years.
- No recent late payments (late payments sometimes, but not always, can disqualify an applicant).
- A verifiable address. Some issuers do not give cards to an applicant using a post office box or general delivery address.
- Paid at least the minimum on all your accounts.
- No more than two or three credit card applications pending at one time.

References

Credit Scoring, Jeanette Tucker, Louisiana State University Extension Service; Bobbie Shaffett, Mississippi State University Extension Service.
<http://msucares.com/pubs/publications/p2372.pdf>

in the next issue: **Using Credit Wisely**

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