



How to Establish Credit

Credit is a way of having something now and paying for it later. Many of us want to take advantage of flexibility in our spending plans by using credit. It usually isn't free, it's paid for by interest that varies.

Qualifying for credit and proving you're credit worthy will involve your ability to repay, your assets that serve as security, and your attitude toward responsibility. All that may be lacking is your credit history - your reliability. Here are suggestions for establishing your credit or credit history:

Open a checking and savings account at a local financial institution to establish a relationship with them. Make sure you show a savings habit and do not overdraw your checking account.

Apply for a loan that has collateral. For example, a car loan is many times easier to obtain because it is a secured loan. In the event you cannot pay, they can take back the security (car). Unsecured loans, for example charge cards, are of more risk to creditors because there is rarely merchandise to take back in the event you can no longer pay.

Obtain a cosigner for your first loan or charge card. This will establish a credit history to a credit bureau.

Apply for a secured charge account. Make sure you have investigated the institution before you send any money. Be cautious of any one that guarantees a card but requires up-front money to process the application.

If offered a pre-approved credit card through the mail, go ahead and send for it to establish a credit history.

Open a charge account at a local department store with a small balance.

Qualifying For Credit

In reviewing applications for credit, creditors may use a point system called credit scoring or more commonly look for what is called the 4 C's - capacity, capital, character, and conditions. These help creditors analyze their risk for approving the application for credit.

Capacity

Do you have the financial capacity to take on the credit you are seeking? Creditors look at your income and your current financial obligations to determine if you have the capacity to handle the additional debt.

Capital

Creditors are looking for what types of assets and resources you have. Do you have equity in your home? What is the value of your car? In determining capital, creditors are not just looking for a means of payment; they seek assurance that a debt could be paid from your assets if the need arose.

Character

This is the most important aspect to the majority of creditors. What has been your responsibility in paying your other debts according to the term of the contract? They rely on credit bureau reports to determine your character. They also verify information, provided by you on your application, to determine if you gave accurate information.

Conditions

Creditors analyze current economic trends to determine if your ability to pay is at risk. If statistics show that your occupation is subject to high unemployment, strikes, layoffs, and seasonal work, it may affect the granting decision or change the terms in your contract.

How to get back on track with credit

If you have had problems in the past paying your bills, your credit history has been affected. With this in mind, it may be difficult to obtain future credit. The following suggestions will help you re-establish your credit:

Use a savings account as collateral for an installment loan. You may be able to borrow as much as you have in the account, but your prompt repayment will indicate responsibility.

Make a larger down payment than required to indicate an interest in the purchase. A creditor will approve a loan where you have something invested.

Have a cosigner who has not had credit problems apply with you for a charge account or loan.

Have merchandise financed through a dealer or store where there is collateral for the item.

Discuss getting a credit card with a minimal credit limit from a major department store until you can prove your credit worthiness.

Avoid rent-to-own companies that advertise re-establishment of credit by renting merchandise. It is not uncommon for the required weekly payments to increase the cost of the merchandise 2 or 3 times its normal value. Not only that, but most rent-to-own

companies do not report your credit status to credit bureaus because they are not subscribing members.

According to the Fair Credit Reporting Act, you have the right to attach a 100-word statement to your credit report. If the circumstances behind your problems are unusual, it may be helpful to have the added clarification available for potential lenders.