

GreenPath Debt Solutions is committed to helping people understand how to manage their money, and we feel that through education and knowledge comes empowerment. We recommend that you consider our financial education course ***My Path to Financial Freedom***. This eight (8) module e-course is available on CD, and plays right on your home computer. Topics include Credit, Budgeting, Smart Shopping, Housing, and ID Theft. In addition, please bookmark **GreenPath University** (www.greenpath.com/university) — our website devoted to financial education. Here you'll find lots of articles, helpful videos, games, and calculators to help you learn all in a fun and engaging way!

To begin, understand that there are no quick fixes to improving your credit. Your credit report will display a detailed history of your accounts going back up to seven years, and accurate credit information generally cannot be removed from your credit report. By improving creditworthy behavior going forward, and with consistency, you may be able re-establish your creditworthiness and credit capacity.

There are a number of things that you can do that may help. Here is how to get started:

- **Pay bills in full and on time.** Prioritize, and always make sure the important bills get paid promptly before you spend money on anything else.
- **Open new accounts and pay them off.** Being able to repay a variety of new accounts is a key step in rebuilding your creditworthiness.
- **Start small.** Credit cards from department stores or a local credit union can be useful.
- **Consider asking for help.** If you can't qualify for credit on your own, ask a friend or family member to cosign for a small loan or credit card. If you can stay current on a major credit card account or small auto loan, this will speed up the process of re-establishing good credit on your own.
- **Consider a secured credit card.** They are guaranteed by a deposit that you make with the credit grantor.
- **Use your new accounts in moderation, and make payments that are more than the minimum.** You can keep a small balance, so that your positive payment history will continue to show up on your credit report.
- **Keep your balances low.** Avoid carrying a balance that is more than 30% of your credit limit (lenders may view it as excessive debt that you may not be able to stay current with).
- **Reduce your household spending.** Review your household expenses and determine which ones you could do without. Consider creating a budget to track exactly where your money goes each month.
- **Call lenders if you can't pay some of your debts.** Explain your situation. Many of the lenders will be willing to work out a plan for you to pay back what you owe.



WHAT IS CREDIT?

BUILDING A GOOD CREDIT RECORD IS AN IMPORTANT STEP IN REACHING FINANCIAL INDEPENDENCE.



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Of the many definitions of “credit,” one of the most important is “financial trustworthiness.” Your credit record is the most important factor lenders consider when you apply to borrow money — for a car or house — or to open a credit card account. Many lenders offer better terms and lower interest rates to consumers with good credit ratings. Building a good credit record is an important step in reaching financial independence.

Credit is defined as confidence in a borrower’s ability and intention to repay. People use the credit they have with financial institutions, businesses, and individuals to obtain loans. And they use the loans to buy goods and services. The credit a person has typically determines how much they will be permitted to borrow, for what purpose, for how long, and at what interest rates.

WHAT IS CREDIT?

The level of “confidence” lenders have in potential borrowers depends on many factors:

- A person’s income is an indicator of a person’s ability to repay, particularly when compared to the amount of debt they already have.
- The amount of borrowing a person has already done and how well they handled repayment is an indicator of their intention and ability to repay.
- Finally, your credit score is a major factor used in making credit granting decisions.

WHY USE CREDIT?

The reasons people borrow are varied and personal. Loans allow you to obtain goods and services today, such as homes and automobiles or a college education, and spread the cost over time. This makes these purchases more affordable than they might otherwise be. Most Americans could not afford homes or cars without the ability to borrow.

Many people, who have built up their savings, use loans instead because they consider rebuilding their savings more difficult than repaying the loan. Many people who already have the money to pay for items, use credit cards because it is more convenient and safer than using cash or checks. They just pay the full balance when the bill comes.



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WHAT DOES RESPONSIBLE USE OF CREDIT MEAN?

Responsible use of credit revolves around the family budget and how much you can afford to devote to loan payments. As a general guideline, borrowing may be justified for automobiles, homes, recreational vehicles, education, home improvements, and other purchases that have value lasting beyond the time it takes to pay them off. Borrowing to pay for daily expenses such as groceries, gasoline, and utilities is often a recipe for trouble. These bills will often accumulate faster than you can pay them off.

Responsible use of credit also refers to living within your means. You should always limit the size of the home you buy, or the price of the car you drive, by the size of the monthly payment you can comfortably afford. You should not use credit cards to “supplement” your monthly income — this could result in a situation where expenses exceed income.

TYPES OF CREDIT

Many different types of credit are available, all with different terms, policies, and costs. To maximize the usefulness of credit, and minimize the potential costs, you should completely understand how each form of credit works.

Types of credit include:

- Credit Cards
- Mortgages
- Installment Loans
- Student Loans
- Utilities
- Equity Lines of Credit
- Payday Loans

SECURED VS. UNSECURED

Debt is a way of life for many Americans, who typically have two main types of debt — secured and unsecured.

What’s the Difference?

With a secured debt, an item serves as collateral in the event that you do not repay the debt. Interest rates are generally lower on this type of debt because the creditor can repossess the collateral if you don’t pay up. Mortgages and Home Equity Loans are examples of secured debts. Large loans, such as for a car or boat, are also typically secured loans. If you have unsecured debt, no property is backing the loan. Credit card debt, for example, is considered unsecured debt, and will generally carry a higher interest rate than a mortgage.

RE-ESTABLISHING CREDIT

Bad credit can happen to good people. Don’t despair if you’ve had some setbacks. There are ways you can get your creditworthiness in shape over time. But you have to start working on it today — and keep working hard to show potential lenders that you’re serious. As you do so, your creditworthiness should improve and that could result in better credit offers and savings to your pocketbook.



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