

ESTABLISHING CREDIT

**Credit Cards – Banks
Jobs and More**



HOW TO ESTABLISH CREDIT



- ✘ 1. Get checking and savings accounts in your own name.
- ✘ 2. Apply for a charge card in your name from a retail store or financial institution(must make at least minimum payment monthly to establish a record of managing debt.)
- ✘ 3. Apply for a loan in your name to buy an item that will be paid off in installments for at least a year(must make all payments on time).

HOW TO ESTABLISH CREDIT(CONTINUED)

- ✘ 4. Secure a small loan from a credit union or bank(an auto loan for instance), and pay installments on time.
- ✘ 5. Check your credit report by calling your creditors
- ✘ Summary
 - + Jewelry Store or Retailer Charge Card (J.C. Penny)
 - + Gas Credit Card (Texaco)
 - + Secured Visa/Master Card
 - + Job Stability (6 months or more)
 - + Co-Signed Loan (if absolutely necessary)



BUILDING A GOOD CREDIT HISTORY

- ✘ Always pay your bills on time
- ✘ Make regular deposits into your savings account
- ✘ Apply for credit that you need, be selective
- ✘ Maintain a low balance on one card and pay it off each month



- ✘ Avoid bouncing checks and add to your monthly savings(remember a checking or savings account shows you know how to manage money).
- ✘ A spouse's death or divorce can leave you without credit. Establish credit in your own name.
- ✘ Secure a job for several months (6+) before applying for credit.
- ✘ If you experience trouble getting a loan, ask a friend or family member to cosign with you.



HELPFUL TIPS FOR ESTABLISHING CREDIT

HOW TO HURT YOUR CREDIT SCORE

- ✘ Makeing late payments
- ✘ Bouncing checks
- ✘ Having too many accounts open
- ✘ Having too many credit cards or changing cards frequently



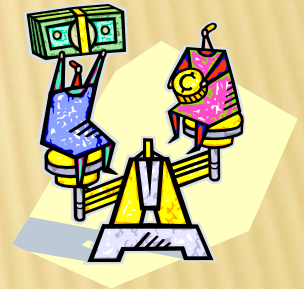
FICO SCORE

- ✘ Is the numerical evaluation of your credit worthiness as a borrower.
- ✘ Attempts to determine the likelihood you will pay your bills based on your history.
- ✘ Your FICO scores are computed by credit bureaus based on your history. The three major credit reporting bureaus are Experian, Trans Union, and Equifax, each of which computes a score based on a unique model.
- ✘ While credit bureaus do not reveal how exactly the FICO score is computed (which has been ruled acceptable by the Federal Trade Commission), the following factors are known to be among the determinants of your FICO score:



FICO SCORE (CONT.)

- ✗ Amount of Credit Used vs. Amount of Credit Available (e.g., have you maxed out several credit cards?)
- ✗ Late Payments on Credit Cards
- ✗ Employment history
- ✗ Length of Time at Current Residence
- ✗ Negative Credit Events (e.g., bankruptcies, collection agencies, etc.)
- + **Note that never having had a credit card or loan isn't necessarily good for your credit score, as you will simply have no credit history on which to judge your FICO score.**



FICO SCORE (CONTINUED)

- ✘ FICO scores are the credit scores most lenders use to determine their risk in lending to you. Your scores are computed from many different bits of data in your credit report - including payment history and outstanding balances. FICO scores range from 349 to 849, with higher scores indicating better credit histories. The current median FICO score in the United States is 723.



WHO LOOKS AT YOUR CREDIT REPORT?

- ✘ Lenders
- ✘ Employers (a new trend)
- ✘ Apartment Leasing Offices
- ✘ Cell Phone Companies
- ✘ Insurance Companies (especially Auto)
- ✘ Utility companies (establishes deposits)



WHAT DETERMINES MY CREDIT SCORE?

- ✘ Payment History 35%
- ✘ Amounts Owed 30%
- ✘ Length of Credit History 15%
- ✘ Types of Credit in Use 10%
- ✘ New Credit 10%
- ✘ Other Factors
 - ✘ How long at current residence
 - ✘ How long on current job



TYPES OF CREDIT CARDS

- ✘ There are basically four types of Credit Cards and are available with a wide variety of interest rates and fees.
 - + **Travel and entertainment cards (T&E)** like American Express, Carte Blanche, and Diners Club charge an annual fee and must be paid in full at the end of each month and therefore don't charge interest.
 - + **Department store cards** are offered by most major retailers. They usually don't charge an annual fee but often charge high interest fees.



TYPES OF CREDIT CARDS (CONTINUED)

- ✘ **Bank cards**, such as Visa, Discover and MasterCard, may charge a yearly fee, and interest rates vary from state to state as well as across different financial institutions. It is important to remember that the individual banks and other financial institutions that issue the cards set the terms and interest rates for their card.
- ✘ Most **department store** and **bank credit cards** are revolving credit. You are allowed to charge purchases up to a certain limit and pay a minimum amount each month. The account stays open indefinitely as long as you make the minimum monthly payment on time. You are charged interest on your unpaid balance as well as interest on the previous month's interest. Most cards are unsecured, meaning that your promise of repayment is used as security.



A SPECIAL TYPE OF CREDIT CARD

- ✘ **Secured credit cards (SCC)** are major bank credit cards with a credit limit secured by a savings account. They look like and work the same as a regular bank card, but instead of using your promise to repay as security, you use your own money in the form of a deposit in a savings account.
- ✘ Secured credit cards are useful if you have had a history of bankruptcy, a poor payment history, or if you wish to establish a credit history. To apply for a card, you send a deposit as collateral, along with an application fee. Some issuers will accept deposits as low as \$250. If you are not accepted, the deposit is returned. You can increase your credit limit by adding to your deposit.





- ✘ With a secured credit card (SCC), you pay your bill each month, just as you would with a regular charge card. If you do not pay your bill, the amount due is deducted from the deposit in your savings account, and your account may be closed. Interest (2 to 4 percent) is earned on your deposit, and you are developing a good credit rating at the same time.
 - + However, you may pay up to 22 percent interest on your unpaid balance. Some SCCs have a conversion feature that allows you to convert your card into a regular card once you have built a good payment record.

SUMMARY

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