Revised Version IV

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Credit Builders Guide

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Introduction

Your credit rating is one of the most important parts of your identity. Regardless of your income, savings, investments, or assets, your purchasing power depends on your credit rating.

We live in a credit driven society. Credit is used to determine purchasing power and availability. A good strong credit report or credit history often opens doors. If you have a history of misused credit, or have never established any credit, you may find some of those doors closing. This manual will help you determine how to correct your credit and re-open those doors.

This manual is intended as a step-by-step procedure to improving or rebuilding your credit rating. Some of the topics we'll cover are:

- ✓ How your credit rating is determined;
- ✓ How to find out what your credit rating is;
- ✓ How to establish credit;
- ✓ How to apply for a bank loan or credit card;
- ✓ How to complete an application so that there are fewer chances of denial, even if you have a bad credit history or none at all;
- ✓ How to work with creditors to improve your rating.
- ✓ Understand your legal rights in regards to credit and lending;

How to Use the Manual

Read through this manual quickly to get a brief understanding of how credit works. Don't spend too much time laboring over the credit laws. We briefly explain them. Quickly glance over the sample letters.

After you have read through this manual completely, go back to the beginning and follow it through step by step.

This manual contains strictly our opinions. We are not engaged in giving legal or accounting services. If professional advice is desired, seek out a professional.

What is Credit and How Does it Work?

Credit is defined in *Webster's Dictionary* as "the favorable reputation derived from the confidence of others; honor, good opinion founded on the belief of a man's veracity, integrity, abilities and virtue." In short, credit is based on trust. A lender *"trusts"* that a borrower will honor the debt, and pay it back in accordance with their prior agreement. In essence, a creditor is someone who is willing to place his/her faith in you. The word *"creditor"* is derived from the Latin word *"credere,"* which means to put faith or trust in.

Although credit in today's world is still based on trust, it has been depersonalized by credit cards. An agreement between two individuals, concluded by the traditional shaking of hands, is almost something of the past. Still, the debtor's responsibilities for repayment and the expectations of the lender are basically the same.

Credit has assumed a greatly expanded role in the lives of most Americans, and buying on credit can be both a blessing and a curse for many individuals. Unfortunately, for many people, living beyond their means is accepted as a way of life. Many people tend not only to spend next month's earnings before they earn it, but even next year's!

Most people just aren't willing to wait until they have the cash to buy the necessities of life. When a person buys on credit, the added cost of having what they want, and having it now, is called interest charges. This is even more apparent when purchasing a home, car, appliances, and other high-ticket items.

Initially, the convenience of having what we desire seems to outweigh the inconvenience of the principal debt, plus the interest, at the time of a purchase. But, when a person finally realizes that they have dangerously extended him/herself, it's often too late to place good judgment over credit convenience. It's easy to know when a person has over extended themselves. Everything looks good and feels great as he/she merrily purchases gifts, clothing, meals, and miscellaneous high-ticket items. But when he/she also starts using credit cards to pay the rent and groceries or, worse yet, pay off other credit cards, then the writing is on the wall.

If you are one of those people, don't feel alone! There are millions of people who are in credit trouble because they have abused their credit. As you shall see, a bad credit rating isn't always the borrower's fault! However, when it knowingly is, there is no-one else to blame. Not the banks, the retail stores, service stations, or the credit card companies. The ultimate responsibility lies with the person who signed the bottom line.

Incredibly, most Americans feel totally helpless when they finally discover or admit they are in financial trouble, or that something is wrong with their credit rating. Most Americans seem to have only the vaguest idea about the mechanics and procedures required in obtaining, maintaining & and re-establishing a good credit standing.

Good Credit Is Essential

During the past 30 years, our American society has rapidly shifted to credit for making purchases. Economists may theorize what the overall effects will be resulting from the current buy -now/pay-later way of living, but no one knows for certain. One thing is certain, it has spelled disaster for many people, and for many others the journey towards financial problems has just begun.

In today's world it is difficult to live the American dream without good credit. Credit can buy a person both time and opportunities. How many people, for example, could afford to take the "time" to save enough cash to purchase a new home or automobile? Yet, without good credit, that's the only alternative, unless you inherit some money or win a lottery! Credit also can help a person take advantage of business and investment opportunities that would not be obtainable otherwise.

Establishing or Re-establishing Your Credit Rating

It is very unusual to have no credit history at all. The only way to do this is to pay cash for everything. This is a society based on the credit system. Getting ahead in this credit society is hard for those who have been denied access to this credit system.

If you apply for a loan and have no credit history, the lender has to trust you enough to believe that you will pay it back. He has no references that support your creditworthiness. The lender is taking a bigger risk in this kind of a situation, and win act accordingly. If you are over 25 years of age and have no previous credit history, then red flags will fly in the lender's mind.

Why hasn't someone trusted you before? What could you be hiding? These unanswered questions will be the demise of your possible loan.

If you have had a bad credit history, then you must now prove to the lender that you have changed your ways, or that your bad credit history was due to circumstances beyond your control.

Steps to establish or re-establish your credit:

1. Open a checking account. Assuming you keep your account correctly, you can use this account as a credit reference. After a few months, ask for a bank card line of credit.

2. Check about getting a loan with your savings account used for security. If you don't have a savings account, borrow the money (a small amount, say $500) from a friend or relative. Then pay them back as soon as you get the loan. Pay off this small note on a short (three month) term. Then repeat the process.

3. Apply for a credit line at a local retailer. This will be easier to get than a bank loan or travel card. Start by asking for a small credit limit. After you have proven your creditworthiness, increase your credit limit.

4. Apply for a department store or oil company credit card. These are the easiest to qualify for.

5. Get a secured credit card. After keeping your account current for a year, ask them to refund your deposit.

6. You might have good credit that you've forgotten about. Think back, and dig out past creditors that reflect good paying habits.

7. Go to an appliance or department store and make a large purchase. Pay 50 percent up front, and ask them to carry the balance for a specific amount of time.

8. If you are refused credit, find out why. It could be an easily corrected mistake. Fix it, and apply again.

How Banks Analyze Your Credit Worthiness

The first thing your loan officer will scrutinize is your ability to repay a loan. To do this, he looks at your employment, the length of time of that employment, and the stability of that employment. Is your occupation stable, or are there lay-offs? Is it seasonal work? This is the first thing the lender will find out. He/she will want to know that income has previously been spent. Do you have previous obligations, such as alimony or child support? If your present living expense is in excess of 40 percent of your gross monthly income, then, in all probability, your loan will be denied.

The next thing your lender will look at is *your personal character*. The fact that you have the ability to pay does not guarantee you have the character to pay. Some indications of a stable character are credit checks through credit bureaus**,** length of time in the community, etc. Most lenders will make a personal judgment of your character during your personal contact. Do everything you can to make a good impression.

Then the lender will want to *protect himself* if he has been misled on your ability to pay or misjudged your character. This is security or collateral. Your lender will not lend you $1000 for a new couch that's worth $500. If you failed to repay the loan, the collateral needs to cover the amount of unpaid balance.