



BETTER CREDIT QUALIFICATIONS = LOWER LOAN RATES

© copyright 1980, 2001 by Teryl Springstead, used by permission

Women's Southwest FCU

Tel. (214) 887-0700 ~ Fax. (213) 887-0099

www.feministcu.org ~ WSFCUDallas@sbcglobal.net

This article includes:

- why lending is a form of legalized gambling!
- what lenders look for
- what's good credit?
- check your reports
- improve your rating

Most of us think of lenders as stuffy, conservative individuals in business suits. Did you know that they actually have something in common with: (1) those who figure the odds in horse races? (2) fingernail-biters?

For the moment, think of *yourself* as a racehorse. In your first race, the odds that you will win are slim, maybe 50 to 1. After you run a few races and "win, place or show" a few times, your odds will improve. On the other hand—or should we say hoof?—if you've run twenty races and always placed last, maybe the odds against you will be 100 to 1.

That's how *lenders* look at *you*. If you've never taken out a loan or a credit card before, they see you as untried and, therefore, "risky". In fact, lenders speak of what kind of a "credit *risk*" you pose to them. What is risky about lending? Plenty.

Let's say you inherit \$100,000. Your friends tell you to invest in certificates of deposit at 5%. In one year you'll have $\$100,000 + \$5,000 = \$105,000$.

You say, "That's OK. I'm going to loan it out and earn double that."

You find ten borrowers who need \$10,000 for one year. Each agrees to pay you back $\$10,000 + \$1,000$ interest = \$11,000 at the end of a year. When they've paid you back, you'll have \$110,000. Your friends will realize how smart you are.

One year goes by. At the end of the year, 7 of the borrowers pay you back. You receive $\$70,000 + \$7,000$ interest = \$77,000.

Borrower #8 was laid off work and can't afford to pay you. You agree to let her make monthly payments of \$100 a month out of her unemployment

insurance, and more when she finds a job. But she never pays until you've called her 3 times. Finally, she is so upset by all of this that she falls ill and has to use the \$100 a month she *was* paying you to cover some of her medical bills.

Borrower #9 took the \$10,000, gambled it away in Las Vegas, and never returned. You can't find her. You hire a collection agency. They agree to track her down, but they'll take court costs and attorney fees off the top and keep 50% of what's left. They track your borrower down, take him to court and attach his wages. They collect \$5,000 before "Skippy" leaves town again. They take \$1,000 in fees off the top. Of the remaining \$4,000, you receive \$2,000.

Borrower #10 used a car as collateral. After Carleena let her insurance lapse, her car was in an accident. You pay a repossession agency to pick up the car. The repo folks have it fixed. They pay \$1,500 to the mechanic and body shop. They charge you \$1,000 for repossession and storage fees. Total costs = \$2,500. They sell the car for \$2,000 wholesale to a used car lot. You have to pay \$500 out of pocket.

The borrower says, "Hey, I'm not paying on the loan. You took my car. I have no checking accounts or savings accounts and I'm self-employed. Go ahead and sue me. You can't get blood out of a turnip."

How much were you repaid?

\$77,000 from the first 7
 + \$ 100 unemployed
 + \$ 2,000 gambler
 - \$ 500 repossessed car
 \$79,600, for a \$20,400 loss!

Now do you know why some lenders bite their nails? Still want to be a lender? Lending involves *risk*. As a lender you can do many things to *manage* your risks:

- charge risky borrowers higher rates to cover expected losses
- charge lower rates to better qualified applicants (otherwise, they'll go elsewhere)
- take more collateral

- check applicants more carefully

But how do you decide which applicants are the best qualified so that you don't lose any *more* of your inheritance?

WHAT LENDERS LOOK FOR

Lenders need to receive all payments every month to cover operating costs, pay interest to depositors, and have cash to make new loans. Profit-making institutions such as banks *also* need to pay dividends to stockholders. It's in the lender's best interest to select borrowers who will pay consistently.

When you borrow money, the lender reports your repayment habits to credit bureaus. If you always pay on time, it's easier for you to borrow in the future *and* qualify for lower rates.

Those things lenders consider fall into two main categories:

- *ability* to repay
- *willingness* to repay

Some of the indicators are:

Expenses vs. Income: Most lenders think of your regular or average monthly income as a pie. Suppose that your income is divided up into 6 "slices". Each lender has different standards. Some want your debts—your rent or mortgage, credit cards and car payment—to use up only one or two slices; others can accept up to 3 slices (50%) and feel safe. More than that and *they may be afraid* to lend you \$.

Apply for loans with 3 lenders: Lender A may say yes; Lender B may make a counter-offer, lending you less than you request. Lender C may deny your request.

One method lenders commonly use to determine your ability to afford the payment is the "debt-to-income ratio". To compute your own debt-to-income ratio, see our worksheets in "Planning Your Purchases: When to Buy on Credit—and When *Not* To".

Stability: How long have you been receiving income from the same current



source? How likely is it to continue throughout the repayment period you have requested? Will a one-semester work-study job enable you to make payments consistently on a 60-month car loan?

Do you work in an industry known for boom times and slack times? Does your monthly income vary depending on the number of hours you are assigned? If your job is new, what are the chances that you will quit during the first 3 months? How long have you worked in the same field?

How long have you been working at the same address? In the same part of town? In the same city? In the same state?

How often do you change residence? If moves are frequent, what are the chances that a lender's reminder notices will catch up with you? How much of your income will go toward your moving expenses?

How do Lenders Check Your Credit History, and What Is It?

Your credit history is a record of loans you've taken out and credit cards you have been issued (even if you don't use them). It's also a record of places where you've applied for credit. How do lenders learn the details?

1. Through Credit Applications: Most applications ask you to list the loans and credit cards on which you are a signer. Just as job applicants sometimes attach a *resume* to their job application, you may want to prepare a list of credit to review while you're completing an application, or to attach to it.

Why go to the trouble when lenders will just run your credit report anyway? Many lenders compare the debts you list on the application to those they find on your credit report. During periods of tight money, or if your application looks questionable to them, they can deny your

request on the basis that you didn't list all of your debts!

You might want to include on your list:

- the name of the creditor (credit union, bank, finance company, department store, *etc.*)
- *part* of the account number
- balance owing (or a notation that the account has been close or paid in full)
- your "credit limit" (the most you can owe) or "high credit" (the most you've ever owed)
- *Minimum* monthly payment
- Month and year account opened
- Collateral or security, if any
- The number of payments you made that the lender or creditor counted as late
- A list of legal actions that might show up on your credit report(s), such as:
 - Repossession
 - Collection account
 - Judgments
 - Chapter 13 plans (you make payments to a Trustee)
 - Chapter 7 bankruptcy (unsecured debts are "discharged")
 - Tax liens

Note: *attach to this list reasons for any late payments or for any actions the creditor took to enforce collection.*

Tell *your* side. Include:

- The month and year your financial crisis began
- What brought it about
- How many weeks or months you dipped into your savings and investments to continue making timely payments on debts before they ran out.
- What compromise or temporary arrangements you made with creditors to ensure that they would receive at least partial payments during each month of your crisis.
- How far behind—at their worst—your payments fell.
- *Which* debts fell behind?
- Which stayed on time?

- During what month/year you caught up and resumed making full payments on time.
- How long you've made on-time payments since then
- *What changes you've made in your life to make future financial crises less likely.*

Think of the psychology: you attach an explanation of past credit problems to an application. The lender reads it even before they "pull" your credit report. You've already helped them understand your past problems *and* demonstrated that you are an up-front applicant.

Many lenders have been burned. When they see credit problems *without* an explanation, they may suspect that you were hoping to hide something from them. Or, they may figure that your *past* problems predict *future* ones. As a result, they may charge you higher rates and/or deny your request. We all know which stores charge the highest prices and which charge the lowest. Why pay luxury store prices for credit when you can get credit at a discount?

Another reason to list your debts on a credit *resume*: as of this writing there are 3 major consumer credit bureaus. Few lenders report to all 3 of them; some report to none at all.

Some lenders *check* with only 1 or 2 credit bureaus. You can work and sacrifice to make all of your payments on time. But if your loan hasn't been reported, or it's been reported to only one or two of the bureaus, your efforts could be overlooked. That's why we offer our member-borrowers who request one a "Credit Reference Letter" to copy and attach to credit applications. It's written in the jargon that lenders understand.

2. Through credit bureaus: where do credit reports come from? Credit bureaus are like sponges: they absorb information that is fed to them. Credit Union A, Department Store B and car dealer S send in computer listings of all of their clients. The bureaus' software sorts through these lists, trying to put all of the credit for each "debtor"—the one who owes the debt—in that person's credit "file".

Trouble is, while *some* of the information in your file may be up to date, other information may be months or even *years* behind. Worse yet, some of it may not even belong to you! It could belong to someone with a social security number that has one number different from yours or some-one who has a *similar* name.

Before you apply for a loan or credit card, ask the lender: "To which credit bureaus do you report?"

Want to see your credit files? Ask us for "How to Obtain Copies of Your Credit Report".

If you're a member of our credit union, *make use of this free service:* once you've received your credit reports by mail or online, copy them and send them to us. We'll look them over and explain them to you in plain language. We'll also suggest steps you can take to improve your qualifications.

What Makes for a Good Credit History?

1. Payments that have been made according to the original terms of the agreement. The best thing a creditor can say about you in their jargon is "As agreed. No lates." This means that you stuck by the original bargain and did not try to change it part way through.

Those of us who are accustomed to paying cash for everything may think that the best way to get a good credit rating is to pay a loan off early. Not so! Pay a loan off in fewer than 6 months and some lenders will report it as "too new to rate". Worse yet, implying that there may have been problems they may report "not according to terms".

Remember that lenders make money from interest you pay on loans. If you repay a loan early, they earn less. For this reason, some financial institutions include in their loan agreements a "prepayment penalty" or "minimum finance charge". (Most credit union contracts clearly state "there is *no* prepayment penalty".)

2. Payments made for 6 to 24 months: some borrowers pay in spurts; others are consistent all year. You may be able to make a lump sum payment when your income tax refund arrives. But do you

skip payments when taxes are due? School starts? It's time to buy gifts?

If you can make payments on schedule for at least one calendar year, lenders know that you can go through a cycle of seasonal events without letting them down. The longer you have been borrowing money and paying it back on time, the more substantial is your "track record".

If you made payments on loans or credit cards that were closed out or paid off over 7 years ago, *they may no longer appear on your credit report.* Open, active accounts stay on indefinitely. Legal items, such as judgments and bankruptcy stay on your credit reports for 10 years from the date they were finalized.

If you have no credit on your credit reports, or very little credit, a lender can legally deny your application for "insufficient credit history".

3. Payments that have been made when due: a creditor may allow anywhere from 3 days to 29 days before considering a payment to be "late". Different lenders have different standards. In order to develop an excellent credit history, pay attention to the requirements of each one. Lenders hate to hear, "But Bank of Blank al-ways gives me 15 days."

A record of "slow" payments may be acceptable to one creditor and terrifying to another. You will usually find that companies charging higher Annual Percentage Rates (APRs) on loans will have a greater tolerance for late payments and *vice versa*. The more a lender earns on loans, the more risks they can *afford* to take.



4. What if you can't pay when due? Do you owe your payment to an institution where you have a checking or savings account? Find out if you can arrange to have the creditor transfer the payment

from your account for one or two months. You can always "pay back" your account. That way you avoid late payments on your credit history.

Within reason, do what you can to avoid late payments.

If that's not possible, as soon as you know that your payment may be late—even if your next payment is not yet due—*let your lender know.* When you let them know *in advance*, many lenders will work out a new agreement that will satisfy both parties.

It's natural to want to avoid contact with your creditors if you don't have any money. Let's face it: it's embarrassing. But remember: they can't read your mind and know of your good intentions. If you contact them *before* they contact you, you assure them of your *willingness* to repay. They just may offer you:

- A change in due date
- A lower payment
- A one-month break followed by a return to your regular schedule

Before you make an agreement:

- **ask the lender, "If I make all payments on time under our new agreement, how will it affect my credit report? (They may still re-port you as "delinquent".)**
- get the agreement *in writing*, signed by someone in authority

If you do *not* contact the lender, but wait for the lender to contact you, or if you avoid the creditor, their natural tendency will be to assume the worst: that you have no intention of paying them and are about to disappear. As a result they may:

- take you to court
- assign your account to an attorney or collection agency
- report your delinquency to credit bureaus
- *legally* require you to pay your debt in full instead of continuing to make monthly payments
- repossess the collateral (when it's a house, they call it "fore-closure")

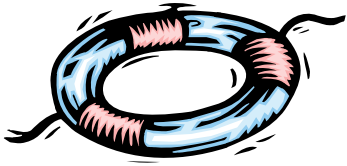
They may do these things without warning, fearing that if they tip you off you may hide yourself, your collateral, or both. **Is your credit good or bad?** Few of

us have “good” or “bad” credit histories. Most of us are somewhere in between. The quality is sometimes in the eye of the beholder. Your credit may look better or worse in comparison to the other applications being reviewed with yours.

If you have some bad marks on your credit history, remember this: a credit report is like a waterfall moving in slow motion. *Eventually* the delinquencies and other “dings” will go downstream and fall off of your credit report, leaving only your on-time payments in view.

A good credit history takes a long time to build up. Safeguard it as best you can. While you may not need to borrow money now, someday you may want to finance a home, car or RV. Your credit is not only a record of your past: it could be the key to a more satisfying future.

ASSETS



What are assets? You can sell or even borrow against them in order to raise money. They can act as a life pre-server for your credit rating. Lenders like to see that you have something to keep you safe in case your income is interrupted or you end up engulfed in a flood of unexpected expenses.

Some borrowers go without a “life preserver”: they make their payments on time only for as long as their in-come and expenses remain consistent. But when they are laid off from work or a computer problem keeps their monthly income from being credited to their account or they encounter medical bills not covered by insurance, what then?

Is your credit record a house of cards? Could one month without income or one extraordinary expense bring yours “a-tumblin’ down”? Or could you keep going for 6 months or even a year if necessary?

Lenders like to see that you have at least some “liquid” assets: accounts such as savings and checking from which you can withdraw immediately. Having money tied up in real estate can be beneficial for many reasons. But how long

might it take between the time you put your home on the market and you actually receive money from the proceeds of the sale? Owning stock can also be good. But if you had to sell it on short notice, might you suffer a loss?

Collateral is something you offer to a lender as a backup in case you cannot repay the loan in the normal manner. It shows them that you are willing to *share the* risk. When you finance a car, house, motor home, motorcycle, or mobile home, you usually use what you buy as collateral for the loan.

In order to feel safer, lenders like your collateral to be worth *more* than they are lending you. If a loan applicant wants to borrow \$500,000 would you rather take as collateral a home worth \$500,000 or \$1 million? What if real estate values drop and their \$500,000 home ends up being worth only \$400,000?

When you offer a lender *much more* collateral or security for a loan, you reduce the degree of risk the lender takes. They’re more likely to approve a loan and give you a lower lending rate.



Expense, income, stability, credit history, assets and collateral: these are the *main* areas creditors examine when going over a credit application.

Some liken credit qualifications to the legs of a stool: if one or two legs are weak and the others are stronger, the application will “stand up”. But if there are too many weak or missing legs, it will fall over.

An applicant who is strong in *all* areas has the best chance of approval. An applicant who is weak in *one* area will need to be especially strong in the others in order to compensate. But compensating can go only so far.

For instance, even if you have good stability, assets and collateral, you may have a tough time borrowing without income or credit history.

The best time to strengthen your qualifications is *before* you need to borrow. If you don’t have time, pay a high rate now. In 6 months to two years, after

your qualifications have improved, take out a loan from a different lender at a lower rate to pay the high-interest loan off.

What else do lenders look for?

Indications of your ability to manage money. Some of them are:

Checking accounts: if you pay bills with money orders or cash, and you’re trying to establish credit, consider opening a checking account. You don’t *have* to. But lenders worry when you don’t have one. Their fear? That you bounce checks and that’s why no one will let you have a checking account. If you bounce checks, maybe you can’t afford to pay them. Checking accounts can also serve as another sign of stability (see “Stability” above). Having a well-managed, stable checking account is a sign of your ability to budget and work with numbers responsibly.

Savings accounts: while lenders *like* you to keep large savings balances with them, they cannot *require* that you do so. But they do like to know that you have savings *somewhere*. Provide information about savings accounts and investments on your credit *resume* or on a separate sheet of paper you attach to your applications.

Savings show that you have the ability to set aside money and plan for the future, making you a better credit risk. (See “Assets” above.) If you’d like to save more money than you do, see/request “How to Save Money” and/or information about our Savings Simplifier accounts.

Reasonable expenses & prudent use of credit: can you easily afford your rent or mortgage payment? Do you live within or beyond your means? Are your credit card balances higher than your credit limits? Do you owe every clothing store in town but can’t afford to buy new tires?

Do you borrow for what you *need* or for what you *want*? The purpose of your loan gives lenders insight into your ability to plan. Do you need a loan to pay taxes? Could you have saved up for them instead? Do you finance major purchases or your groceries? Are you adding 21% interest to the cost of fuel for your car?

HOW TO ESTABLISH CREDIT

Many of us find that trying to establish credit is as difficult as hunting for our first job: no one will give us a chance unless we've had experience. How can we avoid this vicious circle?

Co-Signers—Caution! "Need credit? Get a co-signer." Many financial institutions advise this. *Think twice* before you go this route.

What risks does a co-signer take? Their credit history is at stake. If, despite your best intentions, you are unable to make payments when they are due, a record of late payments will appear on *their* credit history as well as yours. Your inability to repay could make it difficult for your co-signer to obtain credit in the future.

Most co-signers do not know what they are getting into. They think of their signature as a recommendation, not as a promise to make every payment on a loan if you can't.



When a co-signer applies for credit, the payment on the loan they've co-signed is added onto their other monthly expenses, thereby increasing their debt-to-income ratio.

When the original borrower pays slowly, or can't pay, lenders contact the co-signer. Co-signers are often slow to admit to themselves that they may have to start making payments on a loan they think of as someone else's.

While the co-signer hesitates, the loan becomes more and more delinquent, and the lender becomes more and more concerned. Before they know it, some co-signers find them-selves with a judgment against them and their property or wages under attachment! Needless to say, this strains—or ruins--the relationship between signer and co-signer.

What do co-signed loans mean to a borrower? Some lenders report such

loans in the name of the co-maker *only!* Those institutions that *do* report credit in both names consider it to be only half credit rather than full credit. After all, "anyone who needs a co-signer must be a weak applicant." It seems to us that a person who is willing to co-sign is better off offering savings as collateral for a loan. By doing so, they risk *only* their savings. If anything goes wrong, the matter is kept *private*, away from employers, the courts, and credit reports.

Savings-Secured Loans: The easiest way to establish credit in your own name is to apply for a loan or credit card using savings as collateral. The savings institution can "freeze" the account until the loan is repaid.

A big advantage is that the credit will be reported in your name *only*. Most credit bureaus report this as a "secured" account; they won't necessarily report it as *savings-secured*.

Some lenders will let you borrow up to 90% of the balance in the account. But, as safe as such a loan is, some lenders insist on running a credit report first.

Women's Southwest offers four such loans. They can be approved automatically, *without* credit reports or income verification.

Savings-Secured Type I: you deposit savings in California Feminist and use them to back a loan.

Incentive: similar to a Savings-Secured Type I. The difference? You borrow at an extra-low loan rate; you back your loan with a certificate that earns 0.00% Annual Percentage Yield!

Savings-Secured Type II: someone else deposits savings in their own Cal Feminist account to back your loan. Unless you are under age, they do not co-sign.

Credit-Builder: it's similar to putting a savings account on lay-away. The proceeds of the loan go straight into your savings account where they earn "dividends" while you pay on the loan.

After you pay off the loan, you can use the funds in your savings account to back a Savings Secured Type I loan.

Any one of these loans can help you begin to establish—or re-establish-- a credit history. For details, contact the credit union.

Credit Cards: Open a savings account and a checking account at a credit union or bank. Keep at least one month's income in the checking account. That way, even if someone gives you a check that bounces, your account won't go into the red and you won't have to pay fees for non-sufficient funds checks.

After a year or so, apply for a major credit card from the credit union or bank where you have your accounts. If you often do business in person, go to the branch where the employees know you. They will have information on your checking and savings accounts at their fingertips. They'll know more than other lenders about how well you manage your money.

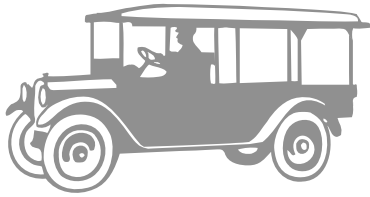
Remember that lenders view your checking and savings accounts as an indication of your ability to manage your money and to stay in charge of your personal finances.

Department Stores, Clothing Stores: ask those who have lived in your area a long time which stores are most likely to open up charge accounts. You may establish credit with an individual store by buying items on lay-away, and then working up to a low credit limit. It is *usually* easier to obtain a charge account from a department store or clothing store than it is to obtain a bankcard.

Unless you want a free copy of your credit report, avoid applying at stores that have a reputation for strict credit policies. Otherwise you'll just add an inquiry to your credit report.

Extra Collateral, larger Down Payments: When financing a car, lenders prefer that you pay 20% of the cost as a down payment; if you do, they will probably give you a lower Annual Percentage Rate (APR). If your qualifications appear borderline, how about this? Pay 25% down; deposit 25%

of the cost in a savings account with the lender; borrow only 50% of the cost of the vehicle. They'll *know* you mean business! It may mean buying an older vehicle than you want. But in a couple of years, you can sell it and use the proceeds as a 20% down payment on a newer automobile.



Apply Frequently

Apply with two or three lenders at once. Each has different standards. Take the loan that offers the lowest APR. If all of them do, take the one that reports to the most credit bureaus.

If any lender denies your loan, *politely* ask if they'd be willing to advise you on what to do to increase your chances that they would approve you at a later date.

To have a credit application turned down is *not* a *personal* insult—it is a *business* decision. Telling someone that an application for credit has been turned down is one of the most unpleasant jobs a lender has. If you can avoid venting your confusion and frustration and ask for help instead, you may learn some useful information to guide you toward the next step.

If a lender turns you down you may *re-apply* when your qualifications or collateral improve. (See "Extra Collateral" above.)

If all 3 lenders turn you down, (1) don't apply anywhere else; you'll end up with too many inquiries on your credit report. *Do* make a list of the reasons your applications have been denied. If they all say the same thing, try to modify your finances: while you may not be able to increase your income, you *may* be able to reduce your rent.

Contact **Cal Feminist**. We may be able to unlock the mystery and/or help you make yourself look better on paper.

CREDIT IN YOUR OWN NAME

If You Are Married: You can have loans and cards for which you have signed reported in your name as well as that of your spouse. This is not always done

automatically. You may need to contact the creditor to request it. Whenever possible, make your request in writing and keep a copy.

If You Are Unmarried and contemplating marriage, you may want to consider keeping some or all of your existing credit in your own name.

Marriage is a financial contract. We have heard the complaints of many feminists whose spouses or partners went bankrupt and left them to pay the bills.

Note: *divorce agreements mean one thing to a judge and quite another to creditors.* A judge may assign half the debts to one spouse and half to the other. This applies to the marriage settlement *only*. *A divorce court cannot cancel a lender's contract!* As far as the *lender* is concerned, if both parties signed the loan agreement—or, in the case of community property states, the debt is a community debt—the lender will feel free to collect payments through all legal means from *both* parties. Slow payments will be reflected on *both* credit reports. Do *not* assume that your ex- is making timely payments

Know what you are getting into and the laws of your state. For more information on this topic, ask us to send you, "The Equal Credit Opportunity Act (ECOA) & Women".

The extension of credit is *not* a right; it is a privilege. The ECOA does not guarantee credit approval. It guarantees that applicants with equal *credit* qualifications will be treated equally, without regard to unrelated matters such as gender, race, *etc.*

WHEN CREDIT IS DENIED

Know your rights. Lenders must give you *written* notice of the reasons for the rejection. It must include:

- All of the reasons for denial
- The source(s) of the information. If one of the sources they list is a credit bureau—and you act quickly—you can use the denial letter to obtain a *free* copy of your report from the bureaus listed there.

If you are simply curious, or you wait longer than 30 days, you may have to pay a fee.

IMPROVING YOUR CREDIT HISTORY:

Before you can improve your credit history, you have to know what it is. Obtain a copy of your credit report from all of the major credit bureaus. How? See/ask for "How to Check Your Credit Report".

Each of your credit reports will be different, and have a different credit score. It's possible to have good credit with one bureau, bad with the next and so-so with a 3rd one. Each lender reports to different bureaus.

Once you've seen your reports, if you're a member of our credit union, send us a copy. Or, do the following on your own:

- **Check for accuracy.** If anything is wrong—other than, being, say, two months out of date—*write* to the lender. Document your claim; be specific. A lender will usually respond to your request within 30 days. If the lender won't fix it, contact the Consumer Relations Department of *every* credit bureau that lists the incorrect info. Ask the bureau to correct the particular loans or items that are incorrect. *Include any documentation that you can.* This is called filing a "Consumer Dispute". The credit bureau will then write the lender and give them the legally allotted time—30 days as we went to "press"—to reply. While the bureau is waiting for the lender's response, the bureau will report that lender's account as being "disputed by consumer". **Note:** why pay a "credit repair" company to do this *for* you when you can do it yourself?
- **File a Consumer Statement, if necessary:** if negative information cannot be changed, you can still tell *your* side of the story. Earlier, we suggested that you write out an explanation

about past credit problems and attach it to your credit applications. Consumer Statements are much shorter versions—up to 100 words—of your explanation. The best part about them, though, is that credit bureaus print them out automatically *along with* your credit report.

- **Credit Scores:** To learn more, go to: <http://www.myfico.com>. Click on the “Credit Education Tab.”

+++

Summary: Lenders look for *signs* of your ability and willingness to make prompt payments over the entire length of the loan you are requesting. They look, too, at your money management skills.

ONCE YOU HAVE CREDIT:

Use it Wisely: to keep yourself from charging too much on your credit cards, pay them *in full* each month. That way, you will have a zero interest loan for about 20 days. In addition, it will be easier to resist getting in over your head.

Use credit for major purchases only. Buy what you need rather than what you want. If you use credit to finance a vacation or income taxes, be sure to pay it off before the next year’s taxes or vacation roll around.

If you have enough money to pay more than the minimum payment on your account, you can reduce the total interest you will pay and keep your balances at a manageable level. But first be sure that you have enough in savings to cover two to six months’ payments on *all* of your bills.

Try to spend no more than 15% of your average monthly after-tax income on loan and charge account payments. Try to keep your rent or mortgage—combined with your loan and charge account payments—to no more than 50% of your average monthly after-tax income.

If You Become Over-Extended: without proper guidance, some of us go overboard. If you’re robbing Patricia to pay Paula, contact your nearest Consumer Credit Counseling Service

(CCCS). They are a legitimate, nationwide, non-profit organization. They do not lend money. They offer two main services:

a. Free budget counseling for you and those who share your household.

b. A debt-repayment service. For this, they charge a small fee. They write letters to creditors. Sometimes they can convince lenders to accept smaller monthly payments. Lenders know that you will give CCCS one payment every month for them to dis-tribute among your creditors.

Out of enlightened self-interest, many lenders contribute money and volunteer time to their local CCCS. They can provide a path from red ink to black ink, *without* filing bankrupt-cy. **In San Diego County:** (619) 497-0200; www.cccssdic.org. **Nationwide:** (888) 298-CCCS (2227). Or check online or in the business section of the White Pages in your local telephone directory.

In addition to CCCS, who else can help?

- **Money Management International (MMI).** They merged with CCCS: Tel. (866) 889-9347.

moneymanagement.org.

They give financial counseling by phone and internet and are open for long hours.

- **Debtors Anonymous:** In addition to being *financial*, are your money-management problems *emotional*? When you are upset, do you ever go on a spending spree? Do you ever use credit *compulsively*? Maybe you could benefit from Debtors Anonymous:

In the San Diego area:
(619) 525-3065
PO Box 22261
San Diego, CA 92192
www.dasandiego.org
info@dasandiego.org

Nationwide:
(609) 466-8861
www.debtorsanonymous.org

They recommend a book, available in public libraries, called *How to Stay Out of Debt & Live Prosperously*.

Gain Objectivity & Expertise: to become more familiar with the way lenders look at things, see if you can volunteer for your credit union’s Credit Committee or Budget Counseling. There’s nothing like helping others deal with *their* financial circumstances to help you become more objective about your *own*.

Conclusion: Remember: your credit qualifications are a work in progress, always changing. You can improve your credit qualifications by:

- Paying all debts when due
- Limiting the amount you borrow and put on credit cards to what you can afford
- Building up at least 2 – 6 months income in savings
- Putting explanations about past credit problems in writing
- Avoiding future credit problems through careful money management
- Sharing what you’re learning with others

Time—and good credit management practices—are on your side. You *can* improve your credit qualifications. As you do, you will pay lower and lower rates on loans and credit cards.



BIForms\Better Credit 6 10