

UNDERSTANDING YOUR CREDIT



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Understanding your Credit

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Understanding your Credit

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Now let's get started

Introduction



Mark started his first year of college as a freshman and got his first visa card. In a very short period of time he had maxed out the card limit and making the monthly payments was not a priority to him. He always let the calls from the credit card company go straight to voice mail on his cell phone. Eventually the calls stopped and he forgot about it. A couple of years later he was a senior and wanted to move off campus. The apartment complex he wanted was not really crazy about student tenants. They required credit checks for all applicants and turned Mark down. They gave the defaulted credit card debt listed on his credit report as the reason.

This is a true story. The apartment complex was probably using Mark's credit report as an excuse because they really didn't want college students anyway but it was completely legal. This type of situation is very common! The individual circumstances and details may be different but the basic scenario of a young person getting their very first credit card or loan and then messing it up happens all the time.

It's no wonder... because we all go through years of schooling but no one ever teaches us the very basics of credit. It is usually trial and error, learn as you go. There are many eBook guides that attempt to teach people how to repair bad credit... but the purpose of this guide is simply to present the very basics of credit within different categories such as credit cards, auto loans, etc.

Because once you learn the basics it will go a long way to helping to avoid bad credit to begin with.

And... if you already have damaged credit... taking the time to learn the basics will make things much easier when you do attempt to repair it!

Why Do You Need Credit?



What is credit and why do you need it?

There is no question that credit has a major impact on your life, your quality of life, your options, business opportunities, and the overall choices that you have in life. Credit provides you access to a better lifestyle.

Credit is also used as a mirror reflection of you! Sometimes it does not reflect the whole story. But your credit report is evidence for anyone who is interested in how you handle financial obligations. It tells people whether or not you pay bills... and if you pay them when they are due.

It provides lenders a record of your ability and intention to repay. Credit is the report card used which establishes your ability to get a loan from a lender, or get a credit card and your ability to repay a loan in a timely manner. Credit is also used for many other things in life from employers on job application to insurance companies determining how much to charge you for your monthly premium payments.

Credit is a privilege and a convenience. Credit lets you pay for electronics on an installment plan... take out a mortgage loan for a house... finance a car... pay for clothing on a credit card..., or pay for a higher education, etc. Credit allows you to obtain things and make purchases without ready cash.

“Please give it to me now... and I promise I will pay you later” This is the very concept of credit!

You get credit by promising to pay in the future for something you receive in the present. But, there are strings attached to credit. Credit usually costs something... interest... financing fees... and, the original amount borrowed must be paid back.

Make no mistake... no matter how polite and professional the loan managers are... you are being critically judged by your credit report.

Just think about this simple and basic example:

If a co-worker approached you and says please loan me twenty dollars, I'll pay you back next payday. You are okay with this person, you don't know them that well, but they're a co-worker, you know you're going to see that person nearly everyday, you know when they get paid, and you have it.... so there's no reason to wonder much about it. So you think to yourself why not, I'll help them out.

But.... let's say before you actually tell them yes, and give them the money. Three other co-workers who overheard the conversation come up to you and say... I loan this person twenty dollars last week and they haven't paid me back. I loan this person twenty dollars 3 weeks ago and I haven't been paid back. I loaned the person twenty dollars 6 months ago, and I haven't been paid back.....

So what do you think about loaning this person the twenty dollars now?

This is the exact same thing that happens when a potential creditor is deciding whether or not to loan you money... and then sees a negative credit report. It is the exact same principal. Only you are not a co-worker, or someone they know, and it is usually for a whole lot more money than just twenty dollars.

Most Americans lives are some how, some way dependant on credit on a daily basis. Unless you are one of those people who paid cash for your car, paid the entire sale price for your home in cash, purchase a house full of furniture for your place in cash, paid your entire years rent upfront in cash, pay your auto insurance premium for the entire year. Even the electric, gas, water and phone payments are a form of credit because you use those utilities services before actually paying for them.

Credit is prevalent in all our lives. So the answer to the question: "Why do you need it?" is, "You all ready have it in some ways, whether you realize it or not"

And you need some form of it... just to survive. Therefore it is vital that we maintain good credit if we want our lives to run smoothly. While it is possible to live with no credit or even bad credit, it severely limits your options in today's society. It limits your opportunities to move up in life!

But it is just not the areas of finance or deciding whether, or not, to give you a loan.

More and more you may find your credit report used as part of an employment application. The law allows potential employers to examine your credit report as part of your employment interview process, or they can just simply ask for your permission to pull your credit as part of their application process. They use the information provided in your credit report as part of their evaluation of you. Credit reports are being used by more and more companies to check out potential employees.

As stated before you are being judged by your credit report. Many employers feel that the person with the bad credit report is the same person most likely to be an unproductive worker, miss excessive time from work, engage in acts of employee dishonesty, etc. etc.

In addition to this... more and more the insurance industry are using credit reports to decide whether or not to issue a policy, or to charge higher premiums! They have actuaries and statistics which they say clearly shows that the person with the bad credit is more likely to file more claims, get in more accidents, and engage in acts of insurance fraud.

There are no laws, no where, that prohibits differential treatment based on credit. It is legal to discriminate against people because of their credit.

These are just some of the reasons, why you need credit. And why you need good credit.

Next we will talk briefly about the types of credit.

What are the types of Credit?



In general, there are two types of credit you can obtain; *secured* and *unsecured*.

Secured credit means that the loan is backed by something of value. It could be anything that you own which the creditor views as valuable... in other words... “Do you have any collateral?” Or it could be the item you are purchasing itself like a car.

Basic Example: You get a loan to buy a car. It is a secured credit transaction; therefore the lender can, and will, repossess the car if you do not repay the loan in a timely manner.

Often you do hear of people being able to purchase a car even though there are negative items on their credit report. And this is exactly the reason why. They know where you live, they know where you work. They charge you a higher interest, on top of other extra fees! And on some level it is to their advantage if you don't pay because they simply can come get the car and do it all over again with someone else... and still say you owe the outstanding balance for the defaulted loan. This is what secured credit, or collateral, allows creditors to do.

Even credit card purchases can be viewed as secured. This is because the credit card issuer can legally take back the merchandise you purchased if you default on the payments. But this is very rarely done with credit cards. The credit card issuer doesn't want your books or furniture, not to mention the meals and gas, etc. you charged on your credit card. So credit card issuers usually treat a default in the same manner as unsecured credit.

Unsecured credit means that you were lent money based on the strength of your signature. This is usually called a signature loan. There is no specific merchandise backing the loan, just the lenders belief that you will repay the money. They just give it to you and hope you are a person of your word.

What are the steps in getting credit?

The first step in getting credit is figuring out what you need it for. Are you trying to get a car, furniture, or something else? Generally, if it is a major purchase, your lender (the car dealership, home mortgage lender, etc.) will help you fill out all the paperwork. And they definitely will treat it as a secured credit application. They will want collateral, a co-signor, and/or require the merchandise itself be the collateral by placing a lien on it until it is paid.

If it is just a credit card or small loan amount you are applying for, often times they will treat it as unsecured credit. And rely solely on your signature and credit references.

As you probably already know credit cards is an enormous industry. You should shop around on your own. Find a bank offering a low interest rate. Ask them for a copy of their application. Then fill out all the information they are asking for as accurately as you can.

The lender will then use this information for two things. First, the application will be used to get a copy of your credit report from one or more credit reporting agencies. There are only three major credit bureaus in the U.S. Equifax, Trans Union, and Experian (*which used to be TRW*). Your local credit bureau and every other credit bureau in cities all across America is in some way affiliated with one of these three companies. In general, for larger loans, like a car or house, at least two of these three credit bureaus will be pulled... and for smaller loans, like credit cards, only one credit reporting agency will be pulled.

Second, your application, along with your credit report, will be used to "score" you. Creditors use a score to evaluate your creditworthiness. If you score high enough, you are granted the loan. If you score too low, you are rejected. If you are in the middle zone, it becomes a judgment call by the lender. If the lender feels comfortable about you, your marginal status will turn into an approval. If the lender feels uncomfortable with you, your marginal status will turn into a rejection.

Creditors like to see the following information listed on your credit application in order of importance to them when evaluating your credit request:

- * ***Positive, up to date credit report***
- * ***Employment you've held for more than one year***
- * ***Address in your name, at the same place for at least a year***
- * ***Current, or paid off loans***
- * ***Master, Visa, AmEx, or Discover card***
- * ***Department store card***

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