



609-646-6644

Getting and Using Credit

©2006, Olen B. Soifer

Do you want to obtain a mortgage or some other credit but find that you cannot do so because you never bothered to establish a credit history? Have you realized that a lack of available credit and/or credit history is limiting your options? You are certainly not alone. Unfortunately, in our increasingly "cash-less" society, it is getting harder to do lots of things without a credit card &/or credit history...such as renting a car, shopping on-line, reserving a hotel room or even renting an apartment.

With enough cash in your pocket, you may be able, for example, to rent a car...if you choose to walk around with hundreds, or thousands, of dollars in deposit money in your pocket. But the convenience of credit cards and the advantages of having a credit history is hard to deny.

But, you say you "have always paid cash for everything"? You say that "no-one will give me credit" and you have no idea how to begin establishing your credit? Does this sound like, "I can't get a job because I have no experience but I can't get the experience because no-one will give me a job"? It is similar! But, in this case there are solutions to the problem, because there are ways of getting credit when you have never had any in the past.

Do keep in mind that applying for lots of credit cards at one time hurts, rather than helps, your chances. It is a tip-off of despairation to creditors. So, in terms of applying for cards, shop around for the best card in each category and don't apply for more than 2 or 3 within a short time.

In order for existing credit records to help you get future credit, your credit history must be more than "clean" credit. It must have some "depth". Depth is based on the number of accounts; age of the accounts; & the amount of the credit limit or high balance. Thus, there should be:

an adequate number of active or recent accounts (3 to 5 at a minimum)

at least 3 accounts with a minimum 2 year history

at least 3 accounts with a credit limit &/or balance that has reached \$1,500 to \$2,500

Here are a number of suggestions for starting a credit record.

1. If a friend with good credit is willing to co-sign your credit card application, you are on your way! The problem is that this would be a joint account. If you don't pay on time, it will affect your friend's credit rating as well as yours. Plus, your friend will be

responsible for the payments.

2. How do take advantage of a friend's good credit without putting them in possible jeopardy? There is a way! Have your friend add you to one of their accounts as an "authorized user". As I will explain down below, this is completely safe for them and you do not have the ability to use the account unless they allow you to do so. But, being added to their account gives you an "instant" credit record and gives you a "leg up" to obtain your own accounts with other companies.
3. Obtain 1 or 2 gasoline credit cards. These are generally easier to obtain than other cards because they have relatively low limits. The credit company is not taking a huge risk because they are not going to let you buy thousands of dollars worth of gas without making timely payments.
4. Obtain 1 or 2 credit cards from stores that, in all probability, have customers with less than perfect credit (i.e.: WalMart, K-Mart, Value City, etc.). These companies are used to dealing with people who have no credit or who are trying to re-establish credit that was poor in the past.
5. Obtain 1 or 2 credit cards from a local store that issues their own credit cards. This is becoming somewhat rare, but may still be possible. These companies may not even require a credit report to issue a card to you. However, you do want to ensure that they will report your credit history with them to one or more of the major credit repositories. *The major credit bureaus or repositories are Experian, Trans-Union & Equifax.*
6. If you have ever paid for anything on time payments, even if they did not report the payments to a major credit bureau, ask them if they would be willing to report the payment history to a bureau now. You, also, may be able to obtain signed credit history from them, that you can report to a bureau yourself.
7. Examples of credit histories that might not have ever been reported could be: car payments; furniture or appliance payments (including "Rent to Own"); private school loans, etc. Unfortunately, many of these pay-by-month instances are financed by the individual vendor or organization and NOT reported any credit bureau. No, it does not cost anything to make reports to the bureaus, but it does take time a vendor may not want to spend every month.
8. Ask about getting a Visa debit card from your bank. Some of these are both debit cards AND credit cards. If it is a true credit card, it may be set up such that the limit is the present balance in the associated account. If you can find a bank that treats the card in this manner, that is fine...because it is the equivalent of a secured credit card without the usual application, service, program &/or annual fees.

9. Take out a personal loan for \$1,000 - \$2,500 from your bank using that much of your savings as collateral...By using deposits as collateral, nearly any bank will give you the loan (even with no credit history at all) because they are completely protected by being able to tie up deposits equal to the amount of the loan. When you get the loan, put the money into a new account...which you could ALSO borrow on, if you like! Pay the required monthly payment(s) for 2 - 3 months and then pay them off entirely. It costs a little interest, but interest you earn on the original deposits, as well as interest on the loan that was redeposited, cuts down your loss.

If the bank is willing to report the payments to at least one credit bureau, this technique is even better. (But, even if they do not, you will be able to expand this technique, at some point, to a loan that will be reported to one or more bureaus.)

This technique can also be used to get non-collateral loans after awhile. If you have obtained, and made a better-than-agreed pay-off of several loans that were backed up with deposits, it increases your chances of getting a "signature loan" from the same lender...that is, a loan based solely on your word that you will repay. It is a true personal loan that requires no collateral. If you continue a good record in this manner, it is possible to get personal lines of credit for truly huge amounts that require no collateral at all except your word!

10. Get a personal loan from HFC or Beneficial Finance. They will high interest rates, but you are going to treat this as in "9", above, and will pay it off quite quickly to save on the interest payments. Of course, you want to make sure they will be reporting to at least one credit bureau AND make sure you deposit the loan proceeds so that you can get some interest back AND have the money available to pay off the loan in a couple of months.
11. Obtain a debit card backed by your bank account OR obtain a pre-paid card that you can "load" with cash from your bank account. Caution...make sure that you are comfortable with the fees associated with pre-paid cards, including the fee to "load" and use the card. Also, bear in mind that pre-paid and debit cards may not report to bureaus. They do, however, limit your losses to the account balance and can be quickly replaced with a different account if their security is compromised.

Secured Credit Cards:

A final alternative is to obtain a secured credit card. These cards require a deposit but many require no credit history. They may not require a credit check or employment either. Or, they will issue the card in spite of a bad credit history. The spending limit is usually the deposit amount, though some companies will give you a limit that is larger (sometime 2 or 3 times larger) than the amount of deposit you give them. Some will allow you to increase your limit, by increasing the security deposit, and others will not.

Generally, the credit provider will review your payment history every 6 to 12 months. If it has been good, they may return your deposit; issue you a new unsecured credit card; or raise your limit above the amount of your deposit.

Unfortunately, there are good and bad secured cards. Here some things to keep in mind:

- There is usually an annual fee on these cards and it could be fairly high...as opposed to unsecured cards that have smaller fees or none.
- There can be a whole host of other fees also: application, program, handling, insurance, etc. Some companies have so many fees that your entire deposit is consumed by the fees. If this is the case, you get the card automatically upon application and sending the deposit in...but there is no available credit! It is "maxed out" from day one and you can't use it until you pay some of it off. For all we know, this may be entirely intentional.
- There may be no grace period on this account balance that comes with the fees...meaning interest starts building up immediately.
- The credit limit is usually limited to less than it could be with an unsecured card, even if you are willing to proffer a larger security deposit.
- Fees for late payments or going over-limit (if allowed at all) could be high.
- The interest rate will be higher than on most unsecured cards and it may go higher if you make any late payments. This can occur on any card, but the final rate would likely to be much higher on a secured card if your agreement contains a provision for an interest rate increase if payments are not timely.
- The fact that it is a secured card may be reported to the bureaus OR the amount of the credit limit (ie: \$250 or \$300) may be a "dead giveaway". Even worse...the card issuer may not report to credit bureaus, which defeats the main purpose of getting a secured card in the first place.

Details Regarding Being Added as an Authorized User:

At the start of this article, I mentioned that I would give more details regarding being added as someone's "authorized user". Here are some points to consider:

It should be obvious that you would want the person who adds you as an authorized user to have good credit. Your credit report will not just show you as an authorized user...It should also show the same credit history of the primary user of that account. In other words, the primary cardholder's credit record, on that particular card, will become your record. This is the major advantage of this credit-building technique...because a good credit record could still be a "thin" record. Being added as an authorized user to the right account will help "fill out" your credit history.

Does the charitable person that does this for you, need to worry? Not at all...for several reasons...

1. The new card that is issued with your name on it will go to their address. They need not give it to you. Rather, they can hold on to it or even destroy it. So, being an authorized user does not automatically give you the right to actually use the account!

2. You will end up knowing the creditor and card number from you credit report. But, without knowing the expiration date, type of card (Visa or MasterCard) AND the 3 digit security code on the back of the card, you could not use the card online, or otherwise, unless the primary user gives you this information or the card.

3. Everything remains in the primary user's name and address and all bills and correspondence from the credit continues to go to their address only. If the creditor needs to contact the card-holder by phone, they will call the primary card-holder, not you.

4. As the primary card-hold is all-controlling...the creditor will not accept any requests from YOU to: add someone else to the card as an authorized user, change the billing address; replace a "lost" card by sending one to another address; etc, etc.

5. Adding an authorized user to an existing account can be done with a card that was going to be closed anyway. Remember that most people, after years of using cards, end up with too many of them. Too many cards lowers someone's credit scores even if they do not have any balances on them. So, your friend can just add you to the account, give you a month or two to get your own (different) cards and then close the account. It will, at some point, show up as "closed" on your credit report. But, the credit history will remain.

Keep in mind that voluntarily closing an account does not, in itself, affect credit scores, though opening new accounts does lower credit scores, slightly, because of the lack of credit history on the new accounts.

A Few Tips for Maintaining a Good Credit History:

1. Don't overdo the accumulation of regular credit accounts. It is better to have a few accounts with high limits and low interest rates than dozens of cards. Not counting store cards and the like, few people need more than 3 or 4 credit cards at a maximum. Close those that are seldom used. As mentioned above, there is no penalty for voluntarily closing an account. On the contrary, your credit score may go up if it is being lowered because of an excess of accounts. Note: Generally, you can easily re-open an account that you voluntarily closed, if you find it necessary.
2. Pay your cards on time and always try to pay more than the minimum payment. On some cards, paying only the minimum payment would require more time to pay the entire balance than a 30-year mortgage.
3. Keep your balances as low as possible, but always below 50% of the credit limit on each account. NEVER exceed the credit limit on any card.
4. Carry only the cards you plan to use that day or one major card to cover emergencies. If you are prone to buy on impulse, you can keep them in a safe deposit box. Because that makes them a bit harder to get out and use, you may cut down your spending.

A Few Tips Regarding Card Security

1. Keep a record of account numbers, the security key number from the back, and the numbers to call if cards are lost.
2. Examine bills carefully, save receipts until you can match them to your monthly statement and report errors promptly. You are not liable for more than \$50 in fraudulent charges, under any circumstances, provided that you report them promptly.
3. Be cautious regarding giving out information about your account on the telephone, online or by email. No reputable credit provider will ever contact you to request account information, passwords, PIN's, etc whether by phone or email.
4. Be cautious about letting other people use your card and more cautious about co-signing for others for cards, automobile purchases, etc. Your friendship may end, but the bad debts of the friend you cosigned for will remain!
5. If you are worried about using credit cards on the phone, online or elsewhere, you can obtain a prepaid card that allows you to "load it with cash" and keep only the amount of credit loaded that is going to be needed for a specific pending purchase.
6. If you are ever concerned that you may be the victim of identity theft, contact the credit provider, the Federal Trade Commission and your state's Attorney General.
7. It is also possible to contact the major credit bureaus and place a Fraud Alert in your credit records. This will cause creditors to contact you before opening new accounts or making changes to existing accounts.
8. Learn all you can about credit and security by doing website searches online. You may want to learn more about identity theft at the Identity Theft Resource Center, www.idtheftcenter.org Our website, www.myfamilyhomelending.com has lots of information and helpful security links as well.

Hopefully, this document has given you a number of ideas about getting the credit you deserve. If you would like to discuss this further, please call us at 609-646-6644.