

SECURED CREDIT CARDS

If you've tried all the options and failed, not all is lost. Secured credit is a last resort, but it is much easier to obtain than unsecured credit.

When a credit card or loan is secured, it means that there is an asset linked to the account that the lender can take if you fail to make payments. When you have a mortgage or auto loan, these are secured loans. If you fail to make payments, the lender will take your house or car in order to satisfy the debt.

You can establish the same thing at most banks with a secured credit card. You can pledge money you deposit in an account to secure the credit card. If you fail to make your credit card payments, the bank takes your deposit. When looking for secured credit, check with your bank, ask a credit union about a secured signature loan or do a **google** search for secured credit cards.

Again, you want to check and be sure that this secured credit is reported to the credit bureaus, but if so, this can be a useful tool to establish that first piece of credit history. After you maintain that account in good standing for a while, you may be able to obtain a regular credit card or loan.

ONLY THE FIRST STEP

Establishing a good credit history takes time. Your credit score is based on a number of factors such as payment history, length of time you've had credit, and much more. So, while it is important to initially establish credit, it is even more important to take the time to do the right things to **maintain** good credit.

HOW CREDIT BUREAUS SCORE YOUR FILE

35% PAYMENT HISTORY—Make payments on time. Nothing hurts your score worse than late payments.

30% OUTSTANDING DEBT—Try to keep lines of credit below 40% of available balances.

15% LENGTH OF CREDIT HISTORY—Keep accounts open. The longer you've had the account, the better.

10% RECENT INQUIRIES—Don't have your credit pulled more than once every 60 days.

10% TYPES OF CREDIT IN USE—Each line of credit has its own point value.



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KEYS TO ESTABLISHING GOOD CREDIT



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NO CREDIT? NO PROBLEM. HERE ARE SOME EASY WAYS TO ESTABLISH GOOD CREDIT.

When you don't have a credit history, it can be difficult and frustrating when trying to purchase a home. If you don't have credit, many places are not willing to give you credit. How can you establish credit if nobody is willing to give you any?



KNOW WHAT LENDERS ARE LOOKING FOR

Since you are looking to establish credit for the first time, lenders can't look to your FICO* Score to determine whether or not to lend you money. In these situations they have to examine other factors that can help them decide if you are a credit risk or not.

(*FICO Score—Score calculated by the credit bureaus to tell the likelihood that credit users will pay their bills.)

Some items they consider are:

1. Bank accounts You don't need a credit score in order to open a checking account at your local branch. However, bank accounts typically don't report to the credit bureaus. Even so, your account history can be a vital component when lenders consider giving you a credit card or loan for the first time. NSF's are frowned upon by lenders and can hurt the consideration of a loan.

2. Employment History Another important factor lenders look at is your employment history. Your ability to hold a steady job can improve the likelihood of getting approved.

3. Rental History Lenders will also look to see how often you move and whether you rent or own. As with employment history, it pays to have a stable residence. When you are already living in the home you want to buy, it is vital that you pay your rent on time. Be sure to pay by check or money order and keep the check stubs. Lenders need proof that you have paid on time.

4. Alternative Lines of Credit Even without a credit history, it is possible to sign up for many utilities in your own name. Having an electric or gas bill, telephone, cable, water service or even car insurance in your name also helps. Just having your name on these accounts won't establish a credit score, but it can be helpful for first-time borrowers. Make sure you have good payment history with other credit sources, as lenders will look at this information.

START WITH YOUR BANK

There are a few things you can do that can help in your quest for establishing credit. The first thing you should do is open and maintain a checking and possibly even a savings account at a local bank. If you already do business with a bank, they should be the first place to look for a loan or a credit card. They know you and they value your business. This existing relationship should carry some weight when seeking credit.

CONSIDER DEPARTMENT STORES

You've probably been shopping at the mall and been asked if you'd like to sign up for their store credit card to save 10% on your purchase, but politely declined. Generally, store cards have higher rates and tend to lure you in with that up-front discount. The way to keep from falling into the trap is to only buy what you can pay cash for. Immediately after making the purchase, set the money aside into savings or a separate bank account. Then, when the bill comes, you will be

able to pay the bill in full. Also, there is no rule that you can't mail the payment before you receive the bill.

The ease in obtaining one may actually be a good thing if you're having trouble establishing credit. If you have struck out at the local bank, you may want to consider checking with one of the local department stores and see what type of cards they offer. Whatever you do, make sure you find out whether or not they report to the credit bureaus. If they don't, it will do you no good.

If you are approved for their card, you need to be disciplined and use it properly. Don't treat this new purchasing tool as free money, but only as a means to establish good credit. The limit will probably be low anyway, but you should make an initial purchase with it and subsequently pay the balance off in full. Once the card is active, it should begin to be reported to the credit bureaus. It is now important to maintain a good payment history on this card so your credit history can build upon it.

No matter what kind of card you choose to use, it is important to keep the balance at or below 40% of the available balance. For instance, if your credit line is \$1000, your balance should never be more than \$400. Credit bureaus look at this when they calculate your credit score.

