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Action

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Women and credit— the credit rating

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Quick Facts

When a person applies for credit, things such as income, assets, occupation, credit rating, residence, purpose of borrowing and personal characteristics are considered.

A woman should establish a good credit rating for herself.

A credit rating can be established by holding a job, opening a checking account, applying for credit cards, opening a charge account, borrowing cash, paying for a car or major appliance.

The amount of debt a woman can safely assume will be influenced by personal circumstances, but she should not take on more debt than can comfortably be paid off.

A woman should stay well informed on changes in state and federal legislation which affect women and credit.

When a person applies for credit, many things are considered in a preliminary "credit analysis," including:

—Personal qualifications, such as character and reputation.

—Income, which measures the borrower's ability to repay. It will be checked for size. (Can it "carry" the desired loan? See How Much Can Be Safely Borrowed, over.) It will be evaluated for stability. (Is income reasonably assured and coming from a reliable source? A controversy exists about alimony. Lenders generally feel that alimonies are not stable and continuous income and should, therefore, be classified in the same category as commissions.)

—Overall assets. In other words, what is owned.

—Employment. What type of job is it? Some occupations are considered more likely than others to lead to loan delinquency and nonpayment. Is the borrower a steady worker? How long has the present job been held? Is the person a "job-hopper?"

—Credit rating. How prompt were previous payments? What does the person's credit report say? What is the person's reputation for "willingness to repay?"

—Type of residence. Does the borrower own or rent? How long has the person lived at the current residence? (Frequent house-hopping may be held against the prospective borrower.) Does the borrower have a phone?

—Purpose for borrowing. How sound is it? Does it fit into long range goals and plans, or is it just a whim?

These and other factors are weighed by lenders when they decide whether to accept or reject an application for a loan or for credit.

For example, assume that two people are applying for similar loans. Several factors would be weighed in each case.

Person A: Has an income of \$16,000.
 Held three different jobs last year.
 Has several sizeable charge accounts with payments overdue.
 Changed residence three times in last two years.

Person B. Has an income of \$10,000.
 Held one job for the last five years.
 Has only a small outstanding debt.
 Lived in the same residence for the last six years.

Although Person A has a larger income, it would probably be concluded that this person is a greater credit risk than Person B, who is more dependable. Person A might have a more difficult time obtaining a loan or credit and might also have to pay more for it.

Using Credit

Whatever a woman's personal circumstances—whether single and just entering the labor force, divorced or widowed, or happily married—she should establish a good credit rating immediately. Later it will enable her to qualify for a loan if it is needed.

Everyone should keep records of financial transactions, and should act responsibly. If payments cannot be made, it is wise not to default; one can speak to the lender and negotiate refinancing.

Many places will give loans or credit—banks, small loan companies, credit unions, retail stores, and the like—but costs may vary from place to place.

Before a final decision is made about applying for credit or a loan, it is best to shop around and see which lender offers the best terms.

At first, a woman may need a cosigner to obtain a loan or credit. If she repays the original debt promptly and then reapplies for credit, on the basis of income and proven willingness to repay, she can insist that a cosigner is not needed.

Establishing a Credit Rating

There are several ways to establish and maintain a credit rating. Since individual needs vary, a woman may find that some methods are more helpful than others, or may better apply to her individual circumstances. Some possibilities are:

●Taking a full- or part-time job. After working for several months, steps should be taken to establish a good credit rating. A woman should be aware that she may need to work from 3 to 12 months before qualifying for a cash loan or other types of credit, depending on the lender.

●Opening a checking account in the woman's own name. If a joint account is held by a married woman with her husband, she can open a second account under her name only. If the account is overdrawn, however, the information recorded in her credit file will adversely affect her credit rating.

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●Applying for a "ready check" or "overdraft" account with a bank in the woman's own name. It does not necessarily have to be used, but the fact that the woman was accepted will be recorded and will be an advantage when other types of credit are needed.

●Applying for a single-purpose credit card (department store, gasoline or similar), even if initially a cosigner is needed. Later the account can be placed in the woman's own name.

●Applying to a local store for a charge account in the woman's own name. If married, the woman should be sure that she has her own account number and is not just listed by her name under her husband's account number. Otherwise the record of her payments will go into his credit file, not hers. (This applies to other types of credit or loans, as well. It is wise to have a separate account number and file.)

●Applying for a multipurpose credit card such as American Express, Carte Blanche, Master Charge or BankAmericard. Again, it does not necessarily have to be used, but the fact that the woman was accepted will be an advantage when applying for other types of credit.

●Borrowing cash from a bank or credit union. A cosigner will probably be needed initially. If a woman applies for an installment loan, she should make a large down-payment and then repay the loan according to the terms of the contract. (This also applies to other types of loans and credit.)

●Paying for a purchase of furniture, a car, or a major appliance on an installment plan through the dealer if a direct loan from a credit union or bank is not desired or cannot be obtained.

●Borrowing money from a consumer finance company if "instant" funds are needed, or if perhaps a lower cost loan cannot be obtained. These companies take greater risks and usually offer faster service than do banks or credit unions, but they charge a higher interest rate to protect against loss.

commitments, size of outstanding debts, and provisions for unexpected expenses.

General Advice

Records of all financial transactions should be kept, and payments should be made on time. One of the false assumptions about women is that they "generally don't keep their figures straight."

A woman should consider establishing and keeping her own financial identity throughout her life by:

- Continuing to work, if only part time.
- Having a separate savings and checking account (in addition to any joint accounts).
- Keeping one or more charge accounts in her own name, and by insisting that it is not necessary to reapply in her husband's name if she should remarry.
- Registering a car in her name and applying for a car loan in her name.
- Belonging to her own retirement and pension program and being sure that her husband's plan has a survivor's clause that will cover her.

A woman should not take on more debt than can comfortably be paid off. If payments cannot be met, an explanation to the lender may provide adjustments.

If money is borrowed simply to establish credit, putting it into a savings account where it will earn interest rather than spending it, is a wise idea. Then the loan should be paid back over a short period of time.

Shopping around for the lowest cost loan (with lowest annual interest rate) is a good rule, and taking the loan out for the shortest time possible will reduce the finance charge.

A woman should stay well informed on changes in state and federal legislation which affect women and credit. If she believes she has been discriminated against, she should be vocal and insist on fair and equal treatment.

More About Credit

What is a "line of credit?" The maximum amount of credit a bank is willing to extend to the borrower over a given period of time.

Some credit danger signals: Receiving frequent "payment overdue" notices; using money earmarked for one purpose to pay other bills.

Credit is debt, not additional income. It is a loan borrowed against a future in which the borrower will have to sacrifice something else to repay. Credit should be used carefully.

When should credit not be used? When a woman is already overcommitted; when she has no savings to cover an emergency; when she finds the cost of credit too high.


The longer the borrowing time, the more expensive the total credit charge (interest) will be.

How Much Can Be Safely Borrowed


One rule of thumb about borrowing is that payments for consumer credit and loans should not exceed 25 per cent of the borrower's disposable (after taxes) income.

Since this means debt incurred in addition to mortgage payments, some professionals feel this percentage is too high and suggest that the "safe lending ration" is only 15 to 20 per cent of disposable income.

The amount that a woman will be able to borrow and how much debt she can safely assume will be affected by several factors including the number of dependents she must support, housing expenses, assets, other financial



How Some Women's Credit Problems Develop



<p style="text-align: center;">MEN AND WOMEN, 18 YEARS OLD, SINGLE AND WORKING</p> <p style="text-align: center;">Need a cosigner to obtain credit. Need collateral for a loan. Have no established credit rating.</p>	<p style="text-align: center;">MEN AND WOMEN, 25 YEARS OLD, SINGLE AND WORKING</p> <p style="text-align: center;">Have generally improved circumstances depending on stability of job, size of income, past credit record.</p>	
MARRIED	DIVORCED	DEATH OF SPOUSE
WIFE	WOMAN	WOMAN
<p>Loses financial identity as she uses husband's name and accounts or joint accounts.</p> <p>Even if she continues to work and to pay all of her own bills she may be asked to reapply for credit under her husband's name <i>unless</i> she makes every effort to maintain her own credit identity, that is:</p> <ul style="list-style-type: none"> • Keeps some charge accounts in her name. • Applies for a car loan in her name only. 	<p>Starts over at same point as 18-year-old, with no credit identity.</p> <p>Alimony may not be regarded as steady income.</p> <p>"Morality" may be held against her.</p> <p>May not be paid as much as a man for same work (restricting available credit as a result).</p> <p>May not have worked and lived in same place long enough to qualify for credit.</p>	<p>Starts over with no credit identity.</p> <p>May not receive equal pay for equal work (restricting available credit).</p> <p>Husband's pension may stop unless it specifically has a survivor's benefit clause.</p> <p>May not have sufficient work experience or have lived in same place long enough to qualify for credit.</p>
HUSBAND	MAN	MAN
<p>Credit status same and improved as job status improves.</p> <p>Establishes additional credit rating by having most accounts in his name or in joint names.</p> <p>For example:</p> <ul style="list-style-type: none"> • Car loans and other types of installment credit. • Personal bank loans. • Charge accounts. • Family insurance policies - home, car. 	<p>Credit status is generally unchanged by divorce.</p> <p>Generally improved circumstances depending on stability of job, size of income, past credit record.</p> <p>Change of job, residence may cause temporary difficulty in obtaining credit.</p>	<p>Generally improved circumstances depending on stability of job, size of income, past credit record.</p>