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Parenting on Your Own : Getting and Using Credit

Cooperative Extension, South Dakota State University

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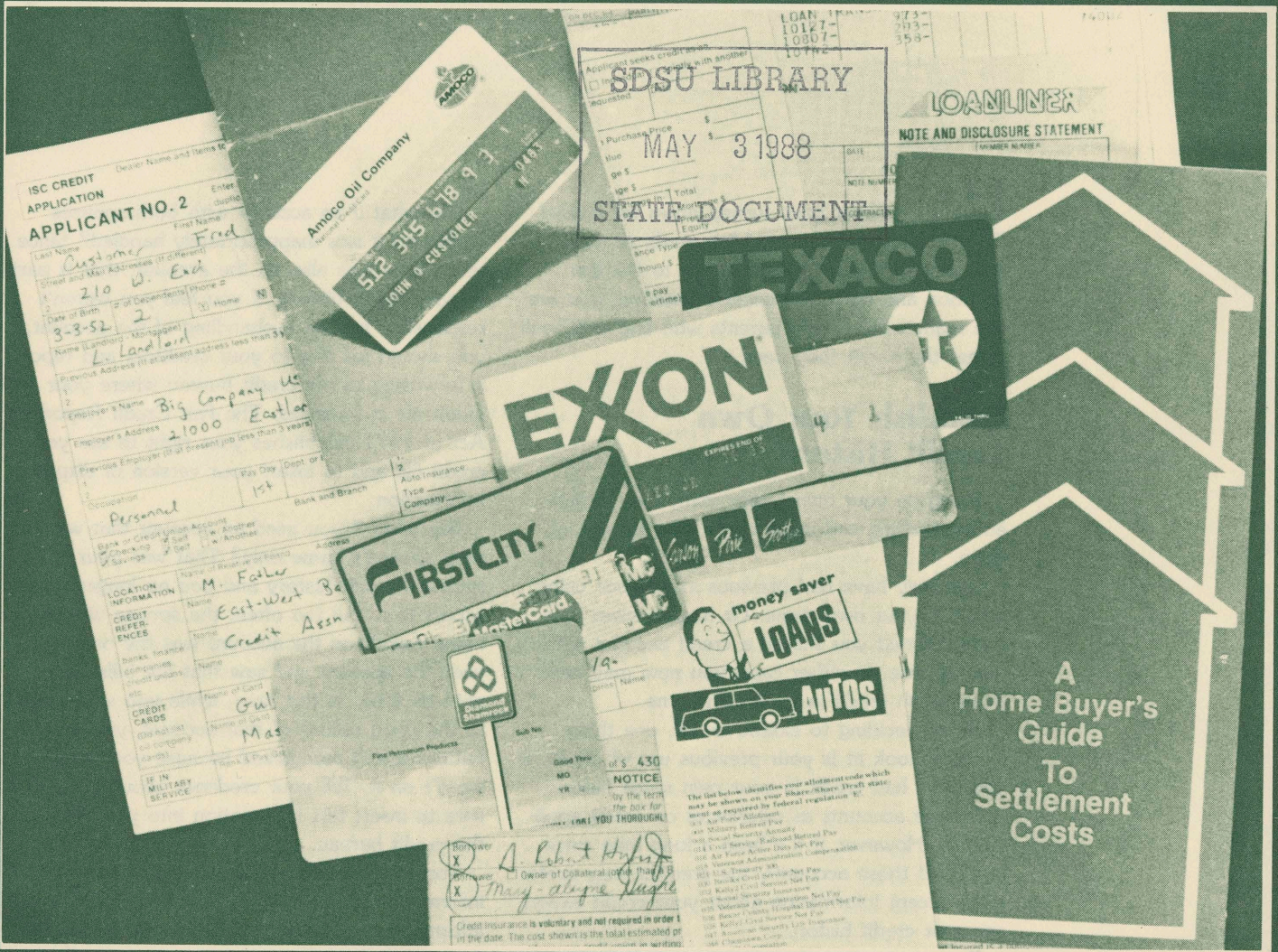
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GETTING AND USING CREDIT

Cooperative Extension Service
South Dakota State University
Department of Agriculture

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Have you ever been turned down for credit? Do you know how to establish credit in your own name? If your answer is yes to the first question and no to the second question, you are like many other single parents who find it difficult to get the credit they need.

Establish Your Own Credit History

Being on your own brings many new experiences. Getting and using credit may be one of them.

You may have had previous experience using credit in your own name. Or maybe when you were married you shared a credit account with your spouse. In either case, you now may need to establish credit in your own name.

When deciding to extend credit, one thing creditors look at is your previous use of credit. If you have had credit in your own name before, use those accounts as references on credit applications. However, if it's been a long time since you used those accounts, the creditor may prefer more recent information about your credit experiences or credit history.

If your recent credit experience includes accounts in both your name and your spouse's name, you can refer prospective creditors to the records of that experience. Point out that the account is your credit history also and that you have been partly responsible for how it has been handled. If the account was established after 1977, under a law established by the Equal Credit Opportunity Act both spouses' names should be on the account.

But what if an account with both spouses' names on it *was* inappropriately handled? Since your name was also on the account, that is part of your credit history. If you feel you weren't responsible for the mishandling of the account, you should tell this to your creditors and report it in writing to the credit bureau where your credit file is recorded. The Fair Credit Reporting Act of 1971 establishes your right to see your credit file and to insert your version of disputed information.

But what if you used an account that was in your spouse's name only? That was your spouse's credit history and you no longer have access to it. All too often, the spouse whose name wasn't on the account was the one who used the account and saw that the bills were paid on time. In this case, while you contributed to the good record of that account, your contributions aren't recognized because your name wasn't on it. Tell your creditors about this and be sure to insert this information into your file at the credit bureau.

Your local credit bureau is a clearinghouse for information about how you pay your bills. The information is received from various businesses that pay to belong to the credit bureau. Credit bureau personnel do not decide who gets credit. They provide information about consumers to the member businesses that request the information. Persons at the individual businesses decide to whom they grant credit. They may or may not accept your version of any disputed information.

If you are denied credit once, don't give up. You can still build your own credit history. Start with your bank accounts. Checking and savings

"I was left with all his bills. He forged my name on credit agreements and I had \$600 of his debts. Women don't know what their rights are."

accounts with regular deposits and no overdrafts will be judged favorably. If you make regular deposits and save a little every month, your creditors will believe that you have the ability to meet monthly credit obligations. It is helpful to include your bank's name and your account numbers on credit applications.

Another asset for acquiring credit can be your service credit record. Service credit is service you use and then pay for, such as utilities and telephone service. Paying these bills on time shows that you meet your obligations. Although this information is not usually asked for on credit applications, it is sometimes useful to mention it in a face-to-face interview with a prospective creditor or when inquiring about getting service in a new place.

If all this fails and you still need credit, take out a thirty- or ninety-day loan from a bank. Pay it back on time or before it's due. Another alternative is to try to get by without credit for six months or a year. By then, your situation may have improved. You will probably have lived at one address longer and may have been in one job for a longer length of time. Home ownership can count in your favor too. Your creditors will probably ask how long you've owned your home. Stability is important and is impressive on your credit record. So if you have lived in one place for a long time, be sure to report it. Of course, what is considered a long time varies depending on the lender and the area. An area where people are more mobile might be easier to get credit in than a rural area where people don't move as much.

What to Do If You Are Refused Credit

If you are refused credit, you have a right to know why. If the business that you have applied to for credit says that the reason for denial was a poor credit history, the business must tell you the name and address of the credit bureau it used. This is required under terms of the Fair Credit Reporting Act. (The same holds true for an insurance company when you are refused insurance, and for banks and finance companies when they refuse you services.)

Under the law, the credit bureau must disclose to you the "nature and substance of all information" included under your name in its files. You also have the right to be told the sources of almost all that information.

You have the right to know what your credit file contains. You also have the right to ask the credit bureau to delete, correct, or investigate items you believe are inaccurate. The bureau may or may not charge a small fee for this. The credit bureau may also charge you for the time it spends correcting any mistakes.

If you learn that the credit bureau has incomplete, misleading, or false information, the Fair Credit Reporting Act requires that the bureau reinvestigate any disputed information "within a reasonable period of time." Also, at your request, the credit bureau must send to those businesses that received your credit report in the last six months a notice of the deletion of any false information from your credit record.

You Can Improve Your Credit Rating

- Establish your own bank account. Make regular deposits and avoid overdrafts.
- List your checking and savings accounts on credit applications.
- Take out a thirty- or ninety-day loan from your bank and pay it back promptly.
- If you have lived at one address or worked in one job a long time, stress that. Stability looks good to prospective creditors.
- Check your credit file to make sure that it contains accurate information.
- Once you do obtain credit, remember to use it wisely. A good experience with credit makes it easier for you to obtain credit in the future.



If, after reinvestigation, information you believe is false is still not deleted from your file, you have the right to submit a written statement of about 100 words telling your version. In any future reports about this item, your version of the story will be included for potential creditors' inspection.

It is a good idea to check your credit bureau file if you have recently been turned down for credit, a loan, or a job. Even if you know you have a good credit rating, it is possible that your file contains misinformation. The credit bureau could have accidentally placed information about another person with a name like yours into your file. For example, the names Jayne Smith and Jane Smith could easily be confused, especially if the middle names are not known or are overlooked. This actually happened to one young woman who had the same first and last names as another person. The telephone company did not check the middle names and addresses of both people, and phone service was disconnected for the wrong person.

After you check your credit bureau file and

have information changed or add information to your file, wait a few months and check it again. A return visit is important to make sure that the changes have been made.

If you do have a poor credit rating, it should improve as adverse information is deleted from your file. Credit bureaus cannot distribute adverse information that is more than seven years old. However, there are exceptions:

- Bankruptcy information can be sent to prospective creditors for fourteen years.
- There is no time limit for deleting any information about loans or life insurance policies of \$50,000 or more.
- There is no time limit for deleting any information from an application for a job with an annual salary of \$20,000 or more.

Any problems with a credit bureau can be reported to the Federal Trade Commission. Regional offices are located throughout the country.

Establishing credit in your own name and learning about your credit file are excellent ways to begin establishing your financial independence.



Use Credit Wisely

To protect your financial independence, use credit wisely. Use it only when absolutely necessary. Ask yourself the following questions before using credit:

The Cost of Credit

Do I know how much the additional cost of interest will be?	If no, ask the salesperson and read your contract again.
Is it worth the extra cost to buy on credit?	If no, then save until you can afford it.
Is this item something I really need now?	If no, wait until you need it.
Does the total cost of this purchase fit my spending plan?	If no, revise your spending plan.
Can I make payments every month?	If no, wait until you can afford the monthly payments.
Have I tried to be exact in estimating my other expenses?	If no, then make a spending plan.
Have I shopped around for the lowest annual percentage rate of interest?	If not, always compare interest rates.

The Risk of Using Credit

What if I can't work for a while? Will I still be able to make the payments?	If no, reconsider the purchase, especially if your work is seasonal or you are laid off.
Can I afford to lose the money I have paid if I miss a payment or can't finish paying for the item?	If no, reconsider the purchase. Try to wait until your work is more stable.
Do I want the goods repossessed, a bad credit history, or the risk of having legal action taken against me?	If no, reconsider the purchase. Try to wait until you can better afford the item.

The Obligation of Using Credit

Can I afford to tie up my future income?	If no, wait until your situation has improved.
Do I understand what the contract requires of me?	If no, read the contract again and ask questions.
Am I willing to pay for this item for the length of the contract?	If no, wait and buy with cash.
Is this an item I need immediately?	If no, then wait.
Will the item still be usable when I finish paying for it?	If no, then use cash.

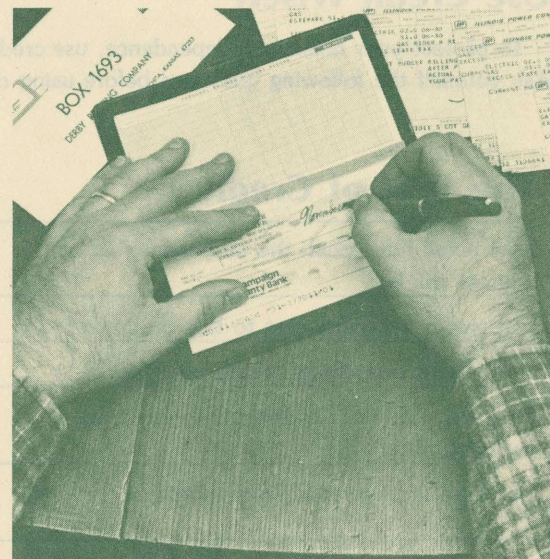
If you answered yes to all of these questions, you understand credit very well. If you answered no to any of the questions, go back and think about what you really want.

What if you are already using credit? Try to avoid using credit for less expensive items and everyday items. A good rule to remember is that the wise use of credit is for items that you will still be able to use after you have finished making the payments. Examples are furniture, appliances, cars, and college or vocational education.

Beware of the danger signals of over-using credit:

- Taking sixty or ninety days to pay bills that you once paid in thirty days.
- Making only the minimum monthly payment while adding more and more charges to the bill.
- Paying bills with money needed for something else.
- Continually being late paying bills.
- Going on a spending spree and charging everything if you are upset or depressed.
- Finding it harder to save.
- Taking out a new loan before the old loan is paid off or taking out a new loan to pay off the old loan.
- Getting notices of overdue payments.
- Frequent family arguments about money.
- Being threatened with repossession of a car or with other legal action for not paying bills.
- Working overtime to make ends meet.
- Not knowing how much you really owe.

If you're having a few of these problems, you may be headed for credit trouble. Think about how you use credit and, if you can, start using it less.



What Is the Annual Percentage Rate (APR)

The annual percentage rate (APR) is the actual amount of finance charge expressed as a percentage of the loan outstanding over a year. It is a uniform method of computation established by the Truth-in-Lending Act of

1968. Previously, the cost of credit was described with various terms that made comparing different sources of credit difficult.

Do not confuse the APR with the finance charge. The finance charge includes the

cost of interest, points, set-up charges, and credit life insurance. (One point is one percent of the amount of the mortgage. Points are paid to the mortgage lender, technically by the seller of the property. However, since the

price of the house usually is adjusted to allow for this, points actually increase the interest rate on the loan to the buyer.) The finance charge is expressed in dollars and cents, while the APR is expressed as a percentage.

"Know what your rights are in dealing with financial institutions and lawyers."

OPEN-END CREDIT PLAN
FLEXIBLE CHARGE ACCOUNT APPLICATION

STORE ACCOUNT NO.
AL

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IMPORTANT: READ THESE INSTRUCTIONS BEFORE COMPLETING THIS APPLICATION—

I type of credit plan required

INDIVIDUAL ACCOUNT—Check here and complete Parts II and IV if you are applying for an individual account in your own name and are relying on your income or assets and not the income or assets of another person as the basis for repayment of the credit requested.

JOINT ACCOUNT—Check here and complete Parts II, III and IV if you are applying for a joint account and are relying on your income or assets **AND** the income or assets of the joint applicant as the basis for repayment of the credit requested. Provide information about the joint applicant in Part III.

INDIVIDUAL ACCOUNT WITH AUTHORIZED USER—Check here and complete Parts II, III and IV if you are applying for an individual account but a spouse or other person is to be permitted use of the account. Provide information about spouse or other user in Part III.

II tell us about yourself

First Name		Middle Initial	Last Name		Social Security No.		Age	No. of Dependents
Present Address					How Long At Address Yrs Mos		Home Telephone	
City		State	Zip Code		<input type="checkbox"/> Own/Buying <input type="checkbox"/> Rent <input type="checkbox"/> Live with parents <input type="checkbox"/> Other			
Previous Address			City	State	Zip Code	How Long At Address		
Current Employer				Telephone		Occupation		
Address		City	State	Zip Code	How Long	Salary Per Year		
Previous Employer		Address		City	State	Position	How Long	
Alimony, child support, separate maintenance income need not be revealed if you do not wish to have it considered as a basis for repaying this obligation. Other income such as AFDC, Social Security or other public assistance benefits, alimony, child support, part time employment, retirement benefits, etc.								
SOURCE(S)						\$	INCOME AMOUNT	

III now tell us about your co-applicant or authorized user

First Name		Middle Initial	Last Name		Social Security No.		Age	No. Dependents
Present Address					How Long At Address Yrs Mos		Home Telephone	
City		State	Zip Code		Relationship to Applicant, if any			
Previous Address			City	State	Zip Code	Telephone No.		
Current Employer				Telephone		Occupation		
Address		City	State	Zip Code	How Long	Salary Per Year		
Previous Employer		Address		City	State	Position	How Long	
Alimony, child support, separate maintenance income need not be revealed if you do not wish to have it considered as a basis for repaying this obligation. Other income such as AFDC, Social Security or other public assistance benefits, alimony, child support, part time employment, retirement benefits, etc.								
SOURCE(S)						\$	INCOME AMOUNT	

IV please tell us about your banking and credit references

<input type="checkbox"/> Checking	Account No.	Name of Bank / Savings and Loan	City	State
<input type="checkbox"/> Savings				
<input type="checkbox"/> Checking	Account No.	Name of Bank / Savings and Loan	City	State
<input type="checkbox"/> Savings				
Credit Reference—Firm Name	Account No.		City	State
Credit Reference—Firm Name	Account No.		City	State
Credit Reference—Firm Name	Account No.		City	State
Credit Reference—Firm Name	Account No.		City	State

Have you ever had a charge account?
 No Yes, under what name? Account No.

I request send credit card(s).
I agree to all the terms and conditions of the credit card(s). Use of any Open-End Credit Plan and Security Agreement, a copy of which will be furnished me with the account by me or anyone authorized by me will signify my consent to the terms and conditions of the Open-End Credit Plan and Security Agreement. You are authorized to check my credit and employment history and to answer questions about your credit experience with me.

Applicant's Signature	Date	Driver's License No. and State
Joint Applicant or User's Signature	Date	Driver's License No. and State

A Typical Credit Card Application

Notice that this application does not require that you state your marital status or that you apply for credit in your spouse's name if you are still legally married. A person may hold a credit card in any name that he or she regularly uses and is generally known by so long as no fraud is intended. In addition, alimony, child support, and maintenance payments are included in your income only if you want them to be considered.



For Further Reading

Porter, S. *Sylvia Porter's Money Book for the 80s*. Garden City, N.Y: Doubleday and Co., Inc., 1979.

Quinn, J. B. *Everyone's Money Book*. New York: Delacorte Press, 1979.

Consumer Credit: How You Are Protected. Illinois Cooperative Extension Service Circular 1194, 1981.

"Financial Facts of Life for Newly Single Moms." *Changing Times*, May 1983, vol. 37, no. 5, pp. 59-62.

Uses and Costs of Consumer Credit. Illinois Cooperative Extension Service Circular 1182, 1981.

Also, look for Sylvia Porter's syndicated column in newspapers.

This circular was prepared by Karen L. Moore, former Family Resource Management Specialist, CHEP. Acknowledgment is also given to the parents and children who enthusiastically shared their experiences through photographs and personal responses.

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Robert Hughes, Jr., and Jane A. Scherer, University of Illinois, project coordinators, Illinois. For more information on single parenting, contact your county Extension agent/home economics or Extension Home Economics, SDSU, Box 2275A, Brookings, SD 57007.

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