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What You Should Know BEFORE You Borrow Money

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Introduction

It happens to everyone. At some time you will need to borrow money. In fact, there are situations where it would be to your benefit to borrow. Taking advantage of a buyers' market in real estate or a good investment based on the stock market are good examples. Borrowing money can be a prudent decision.

However, there are some questions that need answering before borrowing. When is the right time to borrow? What is the right type of loan? What are the short and long term consequences of borrowing money?

In *"What You Should Know BEFORE You Borrow Money"* we will look at the answers to these and other questions. This is not a financial textbook. You won't find any technical jargon. Just plain English and written for the every day person.

We believe we have compiled the best information possible to make certain that you have all the facts before making a decision to borrow money.

Again, if you are looking for a "textbook" or financial jargon that most folks don't understand, you will not find that here. This is a primer to help people who have never borrowed money and need to understand what is expected of them AND their lender. And yes, there are many people who have never borrowed money. This is for all of them.

With that said, let's begin.

When and Why Borrow Money

This isn't a "trick" question. You might be thinking, "you borrow money when you need it." That's partially true. Of course you borrow money when you need it, that's the purpose of borrowing.

However, make certain you approach money lending with the right attitude and for the right reasons. Borrowing money to buy a new suit of clothes may sound frivolous. But, if that new suit of clothes is to be worn on a special job interview or evaluation, it might be considered an investment rather than frivolity.

Borrowing money for a dream vacation that will create family memories for a lifetime may seem to be a good idea at the time. But when the bills come due and it's time to "pay the piper" those sunny memories can fade quickly. It may be a better idea to scale down the vacation. Instead of flying the entire family across the country to attend a theme park, you might consider one or several "mini vacations" closer to home.

An overnight camping trip can result in special memories as well. Many of us live in areas where there are special attractions within a few hours drive. Maybe you have a gallery or historic monument that you have said, "We really need to visit that Museum someday." Plan your trips with plenty of time for sightseeing and special meals.

The point here is whether you "want" to borrow money for something you "desire" rather than having a "need" to borrow money for a necessity. Saving money on a vacation one year may result in the ability to have that vacation of a lifetime down the road when funds are more readily available without having to create debt.

There's no doubt about it, money just doesn't seem to stretch as far as it should these days. The dollar is shrinking and is worth much less than it was when we were children. It seems as though we are working two or three times harder just to survive. No matter how difficult it gets, however, borrowing money for daily incidentals is never a good idea.

All too often people find themselves in a situation where they run out of money before they run out of the month. There may be little or no cash for essentials like bread, milk or (heaven forbid!) toilet paper. This type of situation often drives them to the neighborhood “quick cash” outlet to borrow a few dollars to tide them over until payday. This type of borrowing is the worse type of loan you can get and we will discuss this type of borrowing in depth in a following chapter.

If you find yourself in that type of situation, try changing your habits to avoid being placed in this position. There are any numbers of ways you can grab an extra few dollars, many of them just by eliminating wasteful habits. Here are a few to consider:

- Stop buying the television guide. Yep, try using the newspaper listings or printing out the television listing from the computer. Sound silly? The popular television guide that we used to pick up for around .75 cents is now $2.49. That means you are spending almost $130 a year just so you don’t have to flip through the channels!

- Don’t buy anything from a convenience store. There’s a reason they are called “convenience.” Drive or walk a few blocks further and shop at a grocery or discount store. You’ll pay less for just a little “inconvenience.”

- When you do go to the grocery store, stop near the front door and pick up some of the automated coupons that are available. Or, if you’ve cut them out of the flyer before you go shopping. . .USE THEM! You can usually knock off at least a few dollars on your grocery purchases.

- Always prepare a list before you shop and vow to stick to the list.

- Never buy anything on impulse. . .yeah right! Seriously, grocery and discount store marketers bank on you spending extra money that you had not planned on. Pay close attention to avoiding the end caps (the displays at the ends of long aisles) and checkout lanes. Those are strategically placed to draw your attention and make you spend money that you had no intention of spending.

- Use cash or your debit card for making purchases. Do not buy incidentals or groceries on a credit card. The point here is to save you money not create more interest.

- Save your aluminum cans. Buy yourself a "can crusher" for around $15 or $20. Smash those cans and store them in plastic yard bags. Keep them on hand to turn in at the recycling center. You can usually have enough on hand to pick up a few extra bucks when you need it.

- If you know you are going to run out of cash before your next payday, have a quick yard or garage sale. Just have a few items that you are willing to part with available at all times. It's possible to have a sale of this type without any paid advertising. Most people can just put a few signs up in the neighborhood. There is almost always a yard or garage sale going on in most neighborhoods every weekend.

If you are in a desperate situation and must have immediate cash here are a few other methods to generate quick cash. We are not advocating any of these methods but they are available.

- Borrow against a paid up life insurance policy.

- Pawn jewelry

- Borrow from a relative

- Paint numbers on street curbs for extra cash

- Mow lawns

- Baby-sit

- House sit

- Create simple crafts to sell at a flea market
- Cut and sell firewood
- Walk dogs

Those are just a few examples of how to come up with a few dollars other than having to take out a "quick cash" or "payday" loan.

The time to borrow money is when it is absolutely necessary or advisable. What are some reasons why you might want to borrow money?

- Buying a home
- Home remodeling
- Purchase investments
- Education
- Budget Building Tools That You Can Use

Many people dread the task of building a budget because they view it as overwhelming and frustrating. But it will make the job easier if you look at it in another light, an important tool to financial freedom.

- Does it feel as though there is no way to get out of the red and into the black, much less plan ahead for retirement or a vacation?
- Are you tired of getting paid on Friday and being broke on Saturday?
- Do you have piles of useless junk that you wish you'd never bought?

If this sounds like you, we've got good news! There is a lot of help out there for you in different formats and you will be able to choose which one suits you the best.

One option is to use software like Quicken or Microsoft Money—they are both great options and tools for budgeting. Money management software will take you through the steps and allow you to create or add to categories of spending so you will be able to look at the annual picture. It will then break down what you need to look at every month so that you can be prepared. This software helps with your budget because it lets you see your money all in one place, as well as giving you prompts when it's time to pay your bills. In fact, some programs will enable you to have payments automatically deducted from your bank account. This is a great feature if you're trying to build your credit report!

As you spend money, you will be able to change the categories; this will allow you get a better picture of where you need to cut back, or where you need to invest more. Many money management software programs often also have companion websites where you can set up an account and further manage your budget or investments.

If you need something a little more "hands on" to get yourself back into the black, you have many options. You can contact a credit counseling office in your area or online and find out what resources they have available to you. Many offices have free classes on budgeting.

Many people have such a hard time with budgeting because they simply don't know where their money is going! There are some great new websites such as www.MoneyPants.com that help with this issue. These web sites will track all of your spending and then help you set up your goals. There is a low monthly fee to use any website that will help you with this, but they are generally very user friendly, and in the case of Money Pants, even fun to use. You will have access to someone who can answer questions and a message board where you can find a lot of other information. One great feature is that they will email you with reminders when you have a bill due.

As you can see, building a budget doesn't have to be an awful task. By doing it right, you will get to watch, step-by-step how your financial picture changes. Just imagine, by taking this step, you may one day soon be debt free, or even own your own home. The key is to take your time, do the process in small bites, and be sure to take advantage of all the help out there. You'll be on your way in no time!

- Business startup
- Purchase a car
- Pay off credit cards

The most important thing to remember is borrowing money for incidentals or daily needs is ill advised. Reserve borrowing for those items that will ultimately return some type of investment.

What Type Of Loan Do I Need?

There are many different types of loans available. We will take a look at a brief description of each of them and in the next chapter we will look at the pros and cons of each.

Secured Loans

A secured loan is any loan that contains a provision for the collection or return of an asset when the payments are in default. Secured loans are usually made for homes or cars.

A secured loan on a home is either a first or second mortgage.

Mortgage

A mortgage is a loan borrowed to finance a home or other real property. A mortgage requires that the property is guaranteed as security to the lender for repayment of the loan. The lender holds the title on the home until the loan is paid off plus interest. If you fail to make the mortgage payments the loan is considered in default and the lender has the legal right to seize the home and sell it in order to service the debt.

The mortgage lender will provide the amount of money required to purchase the home. This is the actual amount of the purchase, also referred to as the "principal."

The mortgage lender charges interest in exchange for allowing you the use of their money. That is how the lender earns their income. The amount of interest can vary depending on the terms and size of the loan you select.

Are You Ready for a Home Mortgage Loan?

Buying a Home and Committing to a Mortgage can be very scary!

A home mortgage loan is the largest debt that most Americans will take on in their lifetime. As such, making the decision to take out a mortgage is not one that most first time homebuyers take lightly. Not only will your monthly mortgage payments probably be the largest bill that you face each month, but the total amount of debt realized with a home mortgage loan can have a staggering and sobering effect on the first-time home buyer.

Many people can remember the months leading up to the decision to fill out a mortgage application. They may have had nightmares about losing their job, not being able to keep up with their payments and finding themselves homeless. And those would be the good nights when they were able to sleep at all!

Committing to a Home Mortgage Doesn't Have To Cost You Your Sleep.

In hindsight, they might realize that the fear that they faced when considering a home mortgage loan was irrational and the stress which they put themselves under was unwarranted. However, it surely doesn't seem that way at the time!

Let's take a closer look at common mortgage fears. The major fear is that you won't be able to carry the debt responsibility and you will lose your house. Okay: worst case scenario, you are not able to keep up with the payments, the lender forecloses and you do lose your home. What are you really losing? Something that you do not have right now anyway! Therefore, even with the worst case scenario, you will not be any worse off than you are right now. Furthermore, it is important to realize that the chances of the lender foreclosing are pretty slim. The lender doesn't really want your home, he wants you to make good on your home mortgage loan, and will usually work with you to make that happen.

You should also remember that the fear of losing your home is one that you already faced and survived. You were taking that same chance when you signed your first lease on an apartment. If you were not able to pay your rent your landlord would have made you leave your home.

Taking out a mortgage can be less scary once you realize that this is a fear you have already faced and conquered.

Knowing You Can Afford the Mortgage Will Allay a Lot of Fears

You can lessen the amount of fear that you will experience when you sign on the dotted line of a mortgage application if you are confident that you will be able to handle the monthly payments. Therefore, it is important to take stock of your financial situation before applying for a mortgage.

Sit down with a real estate agent and honestly discuss your financial situation. This includes all your income and your expenses. It makes sense to determine how much of a home mortgage loan you can comfortably afford, and that is essential for having financial confidence and avoiding common mortgage fears.

Now, quit worrying and go out and look for your new home!

Second Mortgage

Just as the name implies, this is a mortgage that is "secondary" to the primary mortgage. A second mortgage is the same as a "regular" mortgage with a few differences.

A second mortgage is generally considered "riskier" than a primary mortgage. This is because if a mortgage goes into default, the primary lender is paid first and whatever is left, if anything goes to the second mortgage lender.

A second mortgage is usually written for a shorter duration than a primary mortgage. Sometimes a second mortgage may require a large payment at the end, which is called a "balloon payment."

Two different types of second mortgages are "home equity" and "line of credit." Let's take a look at how they differ.

Home Equity

This is the "traditional" type of second mortgage loan. The loan is written based on the "equity" or value that exceeds the actual balance of the primary mortgage. Equity loans are most often written when a large amount of cash is desired in one lump sum disbursement.

Line of Credit

There is a big difference between a home equity loan and line of credit second mortgage.

The payment as well as the interest will change periodically with a line of credit and the interest is predicated to the prime rate. The interest will normally be the prime rate plus a percentage.

The amount of the loan is capped at a certain amount and is available in increments over a period of time. This allows the borrower flexibility insofar as when they borrow and for what use. You can borrow the entire amount at once or you can use it incrementally over months or years depending on how your loan is written.

Home equity loans are normally used to obtain a loan for a current need and lines of credit are usually for a future time period.

Both types are normally used for things like debt consolidation, home improvements, paying off credit cards and large purchases like cars or boats where the consumer would rather pay off the purchase outright.

So, there are several terms that you are going to want to familiarize yourself with when you are shopping for a mortgage loan:

- **Balloon Payment-** a balloon payment is usually a large payment due at the end of a loan. Monthly payments are used to pay mostly interest and little principal. So if you aren't sure where the money will come from to repay, this could be risky.

- **Closing costs-** Closing costs are all the other fees included in getting the loan. It could include credit report fees, land surveys, appraisals, title searches, title insurance etc.

- **Equity-** Equity is the difference between what your home appraises at and what you actually owe on it. So if your home appraises for $200,000 and you only owe $150,000 then your equity in the home would be $50,000.

- **Line of Credit-** It is a pre-approved amount of money you can borrow. You only borrow what you need when you need it.

- **Principal-** The principal is the actual amount of money you borrow.

- **Reverse Mortgage-** A reverse mortgage is a home loan that you do not have to repay for as long as you live in the home. Repayment on the loan is due when the last surviving homeowner dies, resells, or permanently moves away.

Vehicle Loans

While vehicle loans are normally for cars, sometimes they may be for motorcycles, boats or recreational vehicles. It used to be a fairly simple process to purchase a car. Today, prices are staggering and you can easily pay five figures for a four-year-old car.

Title Loans

This type of loan requires you to forfeit the title to your vehicle until the amount of the loan is fulfilled.

Unsecured Loans

An unsecured loan requires no security. There are several types of unsecured loans. Some of the terms you may hear are:

Personal Loans

This type of loan may be secured or unsecured. Just as any other secured loan, there is some type of collateral.

Signature Loans

Payday Loans

Quick Cash Loans

There are other names for them but they are all basically the same. This is a loan that usually requires no tangible security. Since the lender does not require collateral, it stands to reason that these types of loans come with extremely high interest rates.

We will discuss all types of loans in depth in following chapters.

What Should I Know Before I Shop For A Lender?

The first thing you need to know is how to avoid scams. The most prevalent of these are "advance-fee loans."

Advance Fee Loans

These sharks prey on consumers. They will take your money in exchange for a "promise" of money then leave you high and dry. It isn't unheard of that they will disguise themselves as legitimate lenders. Beware. This is just another ploy to entice you into falling for their offer.

These types of loans often appear in the classified sections of daily and weekly and month newspapers or magazines. Most often they give a toll-free number. You will also find them advertising in your junk mail, via radio and TV ads. Don't be misled. They pay for advertising period. Just because they may appear in your local media does not give them any more credibility than a legitimate business.

Frequently advance-free loan predators will claim that their fees go to a third party for insurance or a "related service." They may even go so far as to fax information using stolen or forged letterheads and logos from legitimate companies. The materials are most often fakes and the contracts they ask you to sign are worthless and often they will use your information for identity theft!

More often than not, the scammers will have you send your fees using Western Union money transfers payable to an individual rather than a business. This allows the scammers to hide their identity.

How to protect yourself from advance-fee predators:

- Never pay for the promise of a loan. It's illegal for companies doing business by phone in the U.S. to promise or guarantee you a loan then require you to pay for it before they deliver.

- Ignore any advertisement or hang up on any caller that guarantees a loan in exchange for an upfront fee.

- Legitimate lenders never guarantee or state that you will receive a loan before you apply OR before they have investigated your credit status or contacted your references, especially if you have no credit or bad credit.

- Never give your credit card, bank number or social security number on the telephone, by fax or via the Internet unless you are familiar with the company and know why they need that information.

- Do not make any payments to an individual for a loan. No legitimate lender will ask for or require such a request.

- Do not wire money or send money orders for a loan. There is little recourse if there is a problem with a wire transfer and legitimate lenders do not apply pressure for you to wire funds.

- If you are not 100% sure who you are speaking with, get the phone number and address from the phone book or from directory assistance and call the company to make certain you are dealing with who you think you are.

In the previous chapter, we discussed the different types of loans available to most consumers. We will now take an in-depth look at the pros and cons of each type of loan.

Mortgage Loans

Our information regarding mortgage loans is cursory at best. There are many sources for information about mortgage lending available on the Internet. Don't hesitate to obtain in-depth information before you make a mortgage decision.

The good news is that most people can now qualify for a home mortgage regardless of good or bad credit history. In the past, home ownership was reserved for the most qualified buyers only. Lenders have come to realize that they were missing out on a huge market. Most lenders now offer mortgage loans to buyers with less than sterling credit by using slightly higher interest rates. If you fall into this category and have been reticent to apply for a mortgage give it a shot. If you are a "prime" buyer you will obviously get the lowest possible interest rate.

If you fall into the former category and have less than perfect credit, don't shop for a mortgage. What? Does that sound contradictory? It isn't. What you should shop for in your situation is a lender, not a mortgage. Some lenders won't touch you with a ten-foot pole, while others specialize in financing borrowers with credit problems.

There are basically two types of conventional mortgages. A conventional mortgage is one where there is no governmental insurance or guarantee. The two types of conventional mortgages are fixed rate and variable rate.

This is why we say shop for lenders, not a mortgage. To properly comparison shop, compare lenders and what they offer for mortgage products. In other words, make certain that you are comparing the right products. This is very important. If you try to compare a fixed rate mortgage with a variable rate mortgage your results will be drastically different.

What is the difference between the two? Let's take a look:

Fixed Rate Mortgage vs. Variable Rate Mortgage

A fixed rate mortgage is one where the interest will remain the same for the life of the loan. A variable rate mortgage is one where the interest will fluctuate depending on the interest rate mortgage.

A variable rate mortgage will generally have a lower interest rate, but that low interest rate could increase over the life of the loan depending on the interest rate market. There are many, many other factors to consider regarding a variable rate mortgage. A variable rate mortgage is very complex and we will not attempt to explain the nuances here. The best advice is to speak with a mortgage broker or at the very least, use due diligence to educate yourself before considering this type of mortgage.

Fixed rate mortgages are much easier to understand.

The lenders who offer fixed rate mortgages will generally post their current interest rates and you can find them in your local newspaper or online. It is generally considered more favorable to lock in a lower fixed rate than gamble on a variable rate mortgage. This may differ in your case so the best advice is to speak with a mortgage broker.

Understanding a Second Mortgage

A Second Mortgage is a Property Lien placed behind a First Mortgage. A second mortgage is a loan that you take against the equity that you have already built into your home by paying off some of the principal balance on your first mortgage loan.

Historically the total amount of debt from the first and second mortgage combined could not be more than 80% of the total market value of the home. However, record low interest rates and a competitive lenders' marketplace has created a lending environment where some lenders are approving second mortgages that, when combined with first mortgage balances, is totaling as high as 130% of the home value.

However, financial advisors will tell you that carrying that much debt on your home is never a good idea.

Because a second mortgage is a property lien that is placed behind the first mortgage, this means that in the event of a default, after the property is sold the first mortgage gets paid in its entirety, including any legal costs and other costs of the sale, before the second mortgage can be paid. If there is not enough money from the sale of the home, the second mortgage does not get paid.

When determining the interest rate that a lender is willing to loan money out for a home mortgage, he looks at the risk level to him for loaning that money. This is the reason that a high-risk borrower with a poor credit history gets charged a higher interest rate than a low risk borrower with a strong credit history.

The same theory holds true with a second mortgage. Because the lender of the second mortgage is second to be paid off in the event of a default, and because there is a greater chance that there might not be enough equity in the home to pay off the second mortgage in full, second mortgages are usually given at a higher interest rate than are first mortgages; irregardless of who the borrower is.

Shorter Terms

Although you will have choices for terms when selecting your second mortgage, in general the terms given for them are shorter than those of a first mortgage. This is primarily because the amount of the second mortgage is generally much lower than that of the first mortgage.

Second mortgage repayment terms can vary considerably, so it is important that you look around for the one that is best for you. For the most part they range in length from 2 – 20 years, with the majority of second mortgage loans being 5 – 10 years.

Just as the length of the second mortgage can vary, so can other repayment terms. The majority of second mortgages are paid back in equal monthly payments with a portion of the payment going to interest and a portion to the principal balance, just like a first mortgage. However, some are different such as those known as interest only or balloon mortgages. In that case your monthly payment will go only towards interest and the entire principal will be due at the end of the second mortgage term.

When considering a second home mortgage, be sure to shop around and then talk to lenders to ensure that you get the best deal for you!

Conventional Home Loan

Conventional Home loans can be either of the two mentioned above and are usually a loan that you get from a bank. Normally it is for someone that has really good credit and it also has a lower debt to income ratio, about 25%-38%. The one thing about conventional loans is that there is generally no limit to the amount of money you can borrow. The term that you would likely see in that category would be a jumbo home loan which is just what its name implies, which would be a larger than average home loan. This could apply to a million dollar house.

Balloon Mortgage

A Balloon Mortgage would be for someone that doesn’t plan on being in the particular house for too long. Maybe you are going to fix it up and re-sell or you don’t plan on living in that area for a long time. Whatever the reason, a balloon mortgage is one that generally has a lower interest rate and at the end of five to seven years the entire loan will be due, making it a balloon payment. If you are still in the home at the end of the five to seven years you will have to re-finance and get another mortgage.

FHA Home Loan

FHA stands for Federal Housing Administration and it is a government program. They don’t lend the money; they just insure the home loans. FHA home loans allow you to finance a home loan for as little as 3% down which makes it a great program for first time home buyers or anyone who doesn't have a lot of money for a down-payment. The debt to income ratio on a FHA home loan is 29%-41%. This is really easy to understand.

Example:

Monthly income x .29= Maximum PITI

(Principal, Interest, Taxes and Insurance)

For a monthly income of $3,000 this would mean

$3,000 x .29= $870 maximum PITI or your house payment.

That means that if you make $3,000 a month then you can afford an $870 house payment. Now, on the other hand, something that they look at is your **debt ratio**. Your total monthly costs adding, PITI and your long term debt, which would be car payments and credit card balances should be no more than 41% of your total gross monthly income.

Example:

Monthly income x .41= Maximum Total Monthly Costs

For a $3,000 Income that means

$3,000 x .41= $1,230

$1,230 - $870= $360 allowed for long term debt

That means that you will have $360 allowed for car payments and credit card balances. If you fall under those guidelines then you can qualify for an FHA home loan. Of course, there are other things that they look at before you can qualify, but income to debt ratio is good to know before you even get started.

FHA has a maximum amount of money that you can borrow and they get that figure by averaging the past five years of home sales. It is also geographic depending on where you live. The amount of money that you can borrow in the Midwest would be different than the amount you could borrow in California. You also want to be aware that FHA requires certain inspections on newly constructed homes and they also require that an FHA approved inspector do these inspections. There is also a term that may come up with an FHA home loan and that is Sweat Equity, which means that FHA will allow the buyer on a new home up to 3% for Sweat Equity, 2% on the interior painting and 1% on the outside landscaping which would could be throwing out the grass seed and spreading the straw. The FHA home loan is a very attractive loan for a first time homebuyer and it would be recommended that you look into it.

VA Loans

VA loans are very attractive home loan for the military veteran and that would be any person who has served on active duty with the Army, Air Force, Navy, Marines or Coast Guard who has been discharged or released under any conditions other than dishonorable.

The debt to income ratio is generally higher than a conventional loan because if you have been serving in the military and living in military housing they assume that you won't have as much debt. It is also very likely that you can get into a house for $0 down with exceptional interest rates. So if you have served or are still serving it would be in your best interest to check out the VA loan program.

Contract for Deed

A Contract for Deed loan is very common for buyers with low income or credit that is less than perfect and you will generally find the seller to be people that own homes free and clear or builders that want to move their property quickly. The Contract for Deed loan can be very beneficial for both parties. It is basically a contract between the buyer and the seller in which you negotiate a price and pay the seller the money and at the end of the contract you will have to make a balloon payment to the seller for the home. So instead of throwing away rent money every month you are building up equity in a home of your own. Now you need to keep in mind that the Contract for Deed loan only protects the seller. If for some reason you default on the loan or something happens and you can't pay, then you become a renter and all the equity that you have built up is gone, but for someone that is serious about cleaning up their credit and getting a mortgage at the end of the contract this kind of a loan could be very promising. There is much more information available that covers mortgages. We have just skimmed the surface here.

How to Qualify for a Home Mortgage Loan

Are you considering applying for a mortgage loan to purchase your first home? If so, you should read the following tips below that will make the process easier! If You Have a Good Credit History It Is Easier To Qualify For a Mortgage.

By far the easiest way to qualify for a home mortgage loan is by establishing a good credit history. To establish a good credit history you need to be able to demonstrate responsible repayment of smaller loans, such as credit cards and car loans. The building of your credit history begins the day that you put the very first debt into your own name. For many Americans, this is at the age of eighteen.

Having a good solid credit history, shows the home mortgage lender that you take financial responsibility seriously. This makes you, what the lender terms, a low risk borrower. That is to say that you as a borrowers are a relatively low risk in comparison to other borrowers.

In return for your good credit history, the lender will approve your home mortgage loan application. In addition, he will offer you a lower interest rate on the loan than would be offered to other borrowers who are classified as high risk.

However, if your credit history is not as strong as you would like, that doesn't mean that you will have to give up on getting a home mortgage loan. There are other things that you can do to increase your chances for mortgage approval.

Save a Sizeable Down Payment

Having a substantial down payment on the home that you wish to purchase and applying for a smaller home mortgage loan is another way to increase your chances of getting mortgage approval. Again, this goes back to the risk involved to the lender for financing your loan.

Many mortgage lenders will require that you have a 20% down payment on the home, and then they will grant mortgage loan approval for the remaining 80% of the purchase cost. This helps to offset the lender risk. In the event that you are unable to keep up with monthly mortgage payments and you default on the loan, the lender will have a better chance of recovering his money through foreclosing on and selling the home if the loan is a smaller percentage of the market value of the home.

Therefore, if you can save 30% or more towards a down payment on your home, you will be lowering the risk to the lender and increasing your chances of getting mortgage approval.

You May Have To Accept a Higher Interest Rate on Your Mortgage Loan

If you wish to secure a mortgage despite your bad credit history, and you do not have a sizeable down payment saved up, you may have to agree to a mortgage at a higher interest rate than that which is being offered to low risk borrowers. This is because the lender will want to be compensated for his increased risk level.

This should not necessarily prevent you from taking the loan, though. If you secure the mortgage and are diligent about making timely payments, after paying on it for a while you will improve your credit history. Then you can refinance the mortgage at a later date with a better rate offer.

Vehicle Loans

Buyers sometimes use direct lending to purchase their vehicle. They obtain their loan directly from a finance company, credit union or their bank. In the case of direct lending, the buyer agrees to pay the amount that is financed over a period of time plus a finance charge.

The more common scenario for financing a vehicle today is dealership financing. In this case, the dealership and the buyer draw up a contract where the buyer agrees to pay the amount of the purchase over time, plus a finance charge. Sometimes, the dealership will keep the contract but, more often, the dealership will sell the contract to a bank, credit union or finance company which will then service the account and collect the payments.

Using the dealership for your vehicle loan actually has some advantages.

- It is convenient because you are already there.
- The dealership has relationships with a wide variety of lenders. This allows them the ability to offer different financing options.

Just like a mortgage loan, the title for the vehicle is in the name of the lender and the borrower until the loan is satisfied. If the borrower defaults on the loan, the lender will repossess the vehicle and sell it to recoup their loss.

Some tips from the FTC to consider before heading out to a dealership:

Financing a new car purchase requires some research. Before venturing out to the car dealerships uninformed, let's take a look at what you will need to know about the car buying process.

First of all, about 70% of all new car purchases are financed. So unless you plan on paying cash for your new car, or you are going to apply for a car loan, chances are you will be financing your purchase.

1. Determine your financial situation. This is the first and most important step in the car buying process. You must know how much you can spend before you can determine what you can afford. You don't want to get stuck making a bloated car payment that will leave you eating bologna sandwiches for three years.

First of all, you need to have a monthly budget. This is very easy to calculate. Add up all of your fixed monthly expenses, such as your rent/mortgage, phone bill, etc. Subtract that from your net income. Then subtract your estimated extraneous expenses, such as food, gas, entertainment, whatever. The result should be an amount of money you have to play with.

From that, you need to remember that buying a car involves more than a down payment and monthly payments. In your budget you will need to include licensing, registration and other hidden costs, as well as monthly insurance costs, gas and maintenance.

Once you have all of this worked out, you should have a ballpark figure of the budgeted amount you can use for car payments. A good rule of thumb is roughly 20 percent of your net income can be used for a car payment. Once you determine that figure, stay with it.

2. Decide which car you want. Now that you have settled on a monthly allotment, now you can look at which vehicles fit into your price range.

This is really about personal choice, but it’s best to look at what your needs are.

- Do you have a family? There are plenty of affordable, safe and reliable minivans and station wagons on the market.
- Single and commute, or do a lot of city driving? The compact segment has a wide range of models to choose from that boast handling and superior gas mileage.
- Do you use your vehicle for work-related tasks, such as hauling, delivery, etc? Check out the many light and heavy-duty pickup trucks and vans.

- Midlife crisis? There are several convertibles and sports cars that will make you feel young again.

Also, consider your wants. Compact cars get really good gas mileage and are a great if you want to save money on the increasing gas prices.

- Plan on taking road trips? Consider something that gets good mileage and has cargo space and lots of cup holders.

- Plan on going off-roading? The SUV is your best bet. Some even come with a first-aid kit!

Once you've narrowed your choices down to a couple, it's time to do some car research.

3. Do your homework. All right, Columbo. Here's where you will need to spend some time sorting through some details, but it will be worth the effort in the end. After all, the more you know about what you're buying, about whom you're buying from, and about the buying process itself, the more money you will end up saving.

There are plenty of places for you to do your car research. Check out the Internet and newspapers, contact car dealerships, credit unions and local banks to see what kind of deal you can get. Knowing what a car dealer's competition is offering can only help you out in the negotiating process.

Look at interest rates. You'll want to get the lowest possible interest rate, as it will help you pay less in the long run. Many car buyers focus on getting the lowest possible down payment. If a car dealer gives you a low down payment, the money you are saving has to be made back. Car dealers will find ways to lower your down payment, and as a result will find ways to compensate for their generosity. By deferring the down payment "savings," with interest, you'll end up paying more in the long run.

Also be aware of factory-to-dealer incentives. The secret is that the manufacturer refunds a certain percentage of the car's price to the dealer. So even if the car dealer sells you a car at the invoice price, he or she will still make money from the deal. Find out about a manufacturer's incentive percentage, as they are public information.

You should also look out for rebates. When incentives are offered, this often means the manufacturer wants to either get rid of slow-selling cars or reduce the inventory. Therefore, they may also offer the buyer a cash rebate and a low financing rate, or an option of one of the two.

4. Go to the car dealerships. Now that you have an understanding of what kind of rate you will be offered, you now want to go out to the car dealerships.

You already have an idea of what kind of car you want, how much you can spend and what kind of perks you can get. Also you have an idea as to what different car dealerships are offering. This is quite a bit of information for you to carry with you into the negotiating process. But again, the more you know, the better off you'll be.

But remember that Car dealers are professional negotiators and do it everyday. You are a novice and will be treated as such. The car dealers aren't going to be easy on you, nor are they going to point out all the ways you can save money. It's up to you to find all of those.

Also, remember that you are in control at all times. You have the right and ability to stand up and walk out of the office at any point and the dealer will lose the sale.

Don't let a car dealer intimidate you. Be relaxed and comfortable that you know all the information and that you hold all the cards.

Be Sure You Understand the Offer Before Signing On the Line for an Auto Loan

Although 90% of all auto loan offers are simple interest loans, there are some lenders who are pushing loans that are not. A simple interest loan means that interest is paid, or computed, only on the original principal of the loan. You should never agree to an auto loan that is not a simple interest loan.

The other thing that you want to insist on when securing an auto loan is that the loan be given with no pre-payment penalties. Simply put, this means that the lender will not penalize you, by charging a fee, if you pay the loan off early either through refinancing or other means.

It is important to remember that it is always easiest, and refinancing will save you the most money, when a simple interest auto loan with no prepayment penalties is refinanced with another simple interest auto loan at a lower interest rate.

Never Agree To a Pre-Computed Auto Loan

Some lenders offer auto loans that are not simple interest loans at all; they are what are known as pre-computed loans. Sub prime lenders will often target high-risk borrowers with pre-computed auto loans, and some used car dealers might push this type of auto loan financing.

If you sign on the line for this type of auto loan, you are legally committed to paying back the full principal balance of the loan as well as the total amount of all interest that would accrue over the life of the loan.

If you agree to a pre-computed auto loan and then wish to pay it off early, either through refinancing the loan or another means, the lender will usually use an outdated and expensive formula, known as the rule of 78s to calculate a rebate of finance charges. Through this rebate you will pay a very hefty fee for paying the loan off early.

This type of loan allows the lender to apply more of the payment to interest and less to the principal balance of the loan. A pre-computed auto loan allows the lender to collect the majority of the interest due during the first half of the loan repayment period.

Hold Out For the Best Offer

If the first lender that you speak to is not offering a simple interest auto loan with any pre-payment penalties at a reasonable and competitive interest rate, walk away with a smile. There are plenty of other lenders eager to compete for your auto loan financing.

Record low interest rates, and the global lenders' marketplace created by the Internet have led to a competitive lending market. In other words, it’s a buyer’s market! Check with your local bank, the financing that the automobile dealer is offering, as well as online resources. Remember to not only compare interest rates, but look for hidden fees and transfer balances that may not be apparent at first glance. By thoroughly investigating all of your options, you can’t help but get a loan that is perfect for you!

Title Loans

This type of loan may not necessarily be for a car as collateral, but some type of vehicle most often secures them.

In some cases you may have to forfeit the vehicle itself until the loan is paid off. This type of loan is considered “risky.” They are normally written so that the loan is very stringent about the payments. If you are late on a single payment the company can seize the vehicle. This isn’t always the case, but often it is and you could be left without your car. This type of loan also charges an extremely high rate of interest. And, if you do default, you will still have to pay the total amount due to get your vehicle back, you will also have to pay all the associated fees. The best thing to keep in mind if you are considering a loan of this type is “buyer beware!”

Interest Rates

Before you finally decide on a lender you need to understand about the current interest rates. This is where doing your homework comes in again. There are many different places that you can find out the current interest rates. You can do your research on the Internet or by simply calling the lending institutions. Interest rates can fluctuate daily so it is important to understand how they work. It can also depend of the type of loan you are getting and who you are getting it from as well as what type of loan you are applying for. So it would be to your advantage to do a little research before you select a lender.

It is also important to know that interest rates don't have to be locked down. Even a fraction of a drop can affect you dramatically. So you need to make sure that the lending institution is willing to protect you if it goes up and readjust it if it goes down. Many lending institutions will lock in the interest rate when you apply for the loan and will be willing to readjust your loan if the interest rate goes down.

Credit Rating

Fair Credit Reporting Act/ FCRA

Do you know what's in your credit report? Under the terms of the Fair Credit Reporting Act (FCRA), you have every right to know exactly what credit reporting agencies are saying about you. That's only one of the rights that the FCRA guarantees you – and every consumer.

The FCRA is meant to ensure accuracy and privacy of your credit report or consumer history. Businesses that use credit histories to determine whether to lend you money or offer you credit are bound to follow guidelines that are set out by the FCRA. In addition, any agency that collects debts must also follow certain guidelines that are set out by the law. The provisions of the FCRA detail how long particular financial information may be retained on your report, specify ways for you to make corrections to information that is in your credit history, guarantee your right to see your credit report, and give you rights when dealing with creditors.

What specifically are these guidelines and how can they help you if a credit agency is reporting unfair or misleading information about your credit history?

1. You have a right to see your credit report. If you have been turned down for credit, housing or employment based on information provided by a credit-

reporting agency, you have a right to know which agency provided the report. Upon your request, the creditor must give you the name and address of the credit-reporting agency that they used. Further, the credit reporting agency must provide you with your credit report upon your written request for it, and they must do so for no more than the cost of copying and postage.

2. You have the right to correct your credit report. If the credit report you receive contains inaccuracies – for instance, a paid or settled debt is still listed as unpaid – you have the right to request that it be corrected with the accurate information. The request must be made in writing, and the credit-reporting agency to which you make the request must investigate it within 30 days of their receipt.

3. You have the right to receive a corrected copy of the report at no additional charge (beyond postage or copying costs). You may make a written request to have a corrected copy of your credit report sent to you, or to any agency that has requested your credit report in the past six months for credit purposes, or in the past two years for employment purposes.

4. You have the right to fair collection practices. If a creditor is trying to collect a debt from you, they must follow guidelines designed to prevent harassment. Among those guidelines are:

    a) They may not call you outside certain prescribed hours.

    b) They may not disclose information about you to any third party without your permission. This includes the fact that they are attempting to collect a debt.

    c) They may not attempt to contact you at work without your specific permission.

    d) They may not use false or misleading statements to extract information or payments.

e) They must honor a written request to cease further contact with you.

In a world where your credit report is often your ticket to a better-paying job, housing, credit and many other things, it's important to know what credit agencies are reporting about you. Most consumer protection agencies strongly recommend that you request and carefully read your credit report every 2-3 years so that you can correct any inaccuracies, or request that reports of special circumstances be attached to the report. It's a small chore that could save you a lot in the long run.

It is important to know your credit rating when you are shopping for a lender. Ever since the Consumer Reporting Act was passed it entitles you to all the information a credit agency has on you. It can only be to your advantage to know what they know about your personal credit rating.

There are three different reporting agencies, Experian, Trans Union and Equifax. You can write or fax them asking for a free copy of your credit report. Don't pay someone to do this when you can do it for free. Anyone who offers to repair it for a fee is often lying to you and intends to take your money and do little to nothing.

You also need to know that your credit score is figured on the day that it is calculated. If you have recently paid off a large debt your score is likely to be higher and consequently if you have used a credit card for a large purchase it is likely to be lower. The higher your score the better.

It is also important to know that bankruptcy can leave a lasting impression on your credit report. Chapter 7, when all debts are cancelled can stay on your report up to 10 years. Chapter 13, in which the debtor has to repay part or all under a court approved plan remains for seven years.

Sometimes people who have really good credit scores are charged higher interest rates or loan fees because they don't know they have good credit. Scores range from 300-850 and usually anything over 700 is considered "good to excellent". Avoid lenders who won't give your score for free.

Don't Let A Divorce Ruin Your Good Credit Rating!

For example if you divorced, the normal splitting of property and assets would come with that divorce. There would also be a discussion regarding credit card debt. Although, you may have been married for 5 years and did use the credit cards as a couple, say only one name was on the credit cards. And suddenly one partner's recollection of shopping sprees, vacations, and prime rib dinners that had been done together would fade. Sadly, it would become the other partner's responsibility to pay for the memories that had been created together. And guess what? Those charges were on several high interest credit cards.

If you find yourself in a situation like this, don't feel alone. Experts have seen a 20 percent rise in bankruptcy filings, and it is estimated that a large part of this is due to divorce.

Luckily, if you find yourself in this situation, you will have several options:

You could file for bankruptcy—as statistics show that many people are—but you should know that if you choose this option, the bad mark would stay on your credit report for ten years.

Another option would be to simply make the payments. But many people, after experiencing a divorce, find that living on one income is a difficult adjustment after a divorce, and are forced to only make the minimum payments. That can make for a lot of debt. For example, if you had a debt of $25,000 at an average interest rate of 18%, it would be thirty-two years before you paid it off! You would be paying for those memories well up into your 60's!

The other option is to seek professional help. There are several non-profit organizations that specialize in credit resolution, and many people seek this type of help following a divorce. Here's how it works. For a small fee of around $14.00 per month they will analyze your credit card debt, living expenses and income in order to determine what type of repayment structure would best work for you. Then they contact your creditors and work with them regarding interest rates, late fees, and payment amounts. The credit card companies, who understand that divorce is one of the leading causes for bankruptcy, usually don't have a problem working with the credit repair company. After all, they want their money!

Although the non-profit agencies do not report credit counseling to credit bureaus, most credit card companies do. You may look at this as a negative, but many people don't. Credit counseling can be explained a lot more easily than bankruptcy, which is often a deal stopper for someone trying to buy a home, or even purchase a car.

You won't be allowed to retain a credit card when enrolled in a credit-counseling program, but for most people who find themselves in this situation, that can be a relief. Think about it as you are cutting them up, piece by piece. I did. And with each chunk of plastic that fell in the trash, it was a chipping away of the old and a birth of the new. There's a feeling of relief that comes over you when you know you don't have to worry about those mounting credit card bills. And when going through a divorce, the more relief you can have, the better.

How To Build A Lender-Friendly Credit Report

The most important thing you can do when beginning to build up your good credit is to always pay your bills on time and to never, ever borrow more than you can afford to pay back. It sounds simple, but unfortunately, credit is enticing and it really is quite easy to get in over your head. And those no money down and pre-approved credit card offers can send us straight down the dark credit road! It's essential when building a healthy credit report that you remember your long-term goals, and resist that instant gratification.

Today, having good credit means more than ever. It has always had the ability to affect you getting a car, a house, rent an apartment, or be approved for personal loans or credit cards. However, now more employers are looking at credit reports as part of background checks, and insurance companies are considering them when deciding whether or not to extend coverage.

Having good credit means you have established credit, which stated simply means that you have borrowed money or used a credit card and then re-paid it in a timely manner and not extended your credit limits. Additionally, it means not overextending yourself and applying for credit that you won't be able to pay back. One little tip; don't "shop" for credit because every time you apply for a credit card it shows the action as an inquiry on your report. Too many of those make you look like a high risk to other lenders!

As a young adult, using a cellular phone and paying your bills on time is a good way to start building a good credit report. In addition, there are many special credit card offers for students and young adults specifically designed to get a credit history started, and using the card and paying it on time is one of the best ways to establish excellent credit. Paying more than the minimum payment, or even paying the full balance, is also a great idea.

An excellent way to further build strong credit is with a car loan. Most cars aren't cheap, so by having a large balance and then paying it on time every month will do wonders for your credit. You'll need to establish sufficient credit in order to be able to borrow money and finance the car, but making other payments on time – such as the ones mentioned above – and being sufficiently employed will allow you to do so.

Now that we have you buying things and spending money, it's time to monitor your credit and make sure all is well. Request a copy of your credit report once a year, from each credit bureau. It's important to know which of your accounts show up on which reports, and to make sure that they are all accurate. It's fine to increase spending and credit as long you don't overextend, and make sure to cancel any card you are not using immediately. If you find mistakes on your credit report, make sure to follow the bureau's instructions to challenge it, in writing. If you follow these steps, you can get your credit rating up to an AAA status and keep it there.

We discuss credit card criteria in depth further on.

Collateral

Depending on your credit rating and the amount of money you are planning on borrowing you may be asked to put something up for collateral. What this means is the lending institution may want something of value to secure the loan. It could be anything that you own outright that would be the value of the loan in the event that you would default on paying back the loan. This is something to think about when shopping for a lender.

Important Things to look for in a Lender

Just to recap some of the things to look for in a lender:

- How long have they been in business?
- What kind of reputation do they have?
- Do they have experience in your business?
- Are the terms and payout realistic and reasonable?
- Will the lender be flexible to your needs?
- Does the lender hold most of the loans it makes or do they jump in and out of the market?

In the next chapter we will be discussing the different institutions for obtaining a loan. The things that we have gone over thus far will be important when deciding where you actually go to get your loan.

Where Should I obtain a Loan?

There are several different avenues for obtaining a loan.

When you are getting ready to borrow money it is very important to know all of your options and the different places you can go to get the money. There are more options than most people realize.

We will be discussing each one of them individually. The first places people think of are a bank or finance company as well as a credit card company.

You also have the option of a personal friend or family member and, if the money is for a business, you have the option to shop for a personal investor or partner.

There are also State and Local Government lending programs which we will discuss later.

Family or Friends

Just as there are many different reasons for borrowing money there are almost as many options for a lending company. One of the first places you might want to consider would be a friend or family member. This would be a “loving investor”. One of the most important things to consider would be can you work with this person. Borrowing money from a friend or family member would be much more personal. You want to make sure that the reason you need the money is important and will be to them as well. Are you willing to be constantly reminded of who helped you get started and will the relationship be lost if the money is lost? Then on the other hand if you are successful repaying the money it could be very good for the relationship. These are important things to take into consideration before borrowing money from family or friends. We would recommend that you put all the terms and conditions in writing so there is no confusion between the lender and the borrower.

Commercial Banks

This is probably the most well known place to obtain almost any kind of loan. The one thing that you will want to keep in mind before choosing a particular institution is that most banks require that you have an active account with them even before you apply. This could also be to your advantage because they may be more willing to work with you seeing as you are one of their customers.

There are mainly two different kinds of loans, long term and short term, which is the amount of time required to pay back the loan. Long term would be for larger purchases like a home or business. Short term normally would be for a smaller amount like a car loan or inventory for a small business.

There is also secured loans and unsecured loans usually known as a signature loan. The secured loan would require that you put up something of value for collateral in the event that you were to default on the loan. Then they could seize the collateral and recoup the loss. An unsecured or signature loan most often requires that you have good credit and the bank trusts your track record when making the loan.

Sometimes, depending on your credit the bank may ask for a cosigner. A cosigner is someone who is being asked to guarantee the debt. Usually it is someone close such as a family member or a friend. This can be a good way for someone to build their credit if they don’t already have any. Many people do this for a child getting their first car loan. You want to be sure that the cosigner understands the terms and conditions of the loan. They will want to be sure that they can repay if the borrower were to default. We would recommend that if you choose this option that you would repay the debt.

Finance Companies

Finance Companies usually charge higher interest rates but are generally known to be more willing to take a risk than a commercial bank. Finance Companies aren’t as regulated as the big banks giving them more room to negotiate. The main reason is that a finance company unlike a bank does not receive deposits from the public. Another important thing to know when considering a loan especially for a business is that when you sign up for other programs they offer like payroll or accounts receivable management, they are more likely to offer a lower interest rate.

Credit Card Companies

There are pros and cons to borrowing money using a credit card. Credit cards are so easy to get these days but if you don't do your homework you could be paying back many more times than what you borrow. When you are looking into different credit card companies you want to read the "fine print". There are some companies that can actually raise your interest rate as much as 1.5% if they see a "derogatory" credit report on your record and many see any check as derogatory. An example would be if you apply for a new car loan and part of the process would be a credit check, the credit card company could very well see this a "derogatory" report and bump up your interest rate. Many people don't know this and why it is also very important to check your statements every month.

One of the things you will want to find out is the APR or the Annual Percentage Rate which will generally be expressed as a yearly rate. This can vary greatly from card to card. The other term you will see is the "periodic rate" which is the rate applied to any outstanding balance which figures the finance charges each month.

The cards that offer a "variable rate" are cards in which the Annual Percentage Rate can raise or lower when interest rates change. This could be a good thing or a bad thing depending on your own situation. There are some cards that also have a "grace period" in which no interest is applied if you pay your bill in full before the due date. So if you need money and intend to repay it quickly this could be a plus especially since there are cards that can actually earn interest instead of paying it. Some card companies actually offer money back on each dollar you spend a month.

Credit cards can have many different fees and charges so you need to check them all out and make sure that you understand them before you finally choose the one for you.

The bottom line is you need to shop around before finally picking a lender and the best loan for you. Some things to remember are:

- Know whether you want a loan or a line of credit
- Talk to several different lenders, banks, savings and loans, credit unions and mortgage companies
- Pay attention to the fees. The lowest monthly payments aren't always the best option. You could end up paying more in the end.
- Always ask the lender to explain the loan in full detail

The Pitfalls of the % APR Credit Card

People used to think that they had enough on their benefits with their credit cards. They thought that the rewards they get and the low interest they have is already enough to last a lifetime.

However, there are instances when they get to have the chance of seeing promotions like 0% APR. Now, this is really something. But the question is, is it true? Is there a great probability that credit card companies can actually offer a 0% APR?

For most financial experts, they contend that it is, indeed, possible. In fact, credit card companies would definitely go for this kind of scheme just to get the consumers on their hook.

That sounds too good to be true, indeed. But the question is how come they can offer something so good just like that?

Normally, 0% annual percentage rate or APR lasts only for 6 months. The countdown starts from the day the credit card is claimed.

In most instances, 0% APR are attractive to people who would want to have a balance transfer. This is because they would want to consolidate all of their debts into one payment only. And because they have a huge pile of debt, they would rather go to a credit company that can offer them lower interest rates.

With things like 0% APR credit card, who can resist them?

Moreover, with the 6-month timeframe, people will get to have the chance of paying their standing debts for a whole six month-period only. That would be a lot of savings.

But then again, 0% APR credit cards are not at all beneficial to everybody. As they say, there is always an exception to the rule. This refers to those who do not accumulate interest charges simply because they have outstanding balance. So, they wouldn't feel the necessity of getting a 0% APR credit card.

The best credit cards for these types of people are those that offer rewards and cash backs instead of lower rates.

All of these boil down to one point, that people must be aware on how these wonderful offers can provide them the benefit that they want.

Online Credit Card Application:
the Easiest Way to a Customer's Heart

Many credit cards are offered in the market today thus, making companies more aggressive in advertising and marketing their card services. These companies (e.g. banks, department stores, specialty stores, airlines, hotels, etc.) have found a powerful tool in catching the attention of prospective cardholders: online credit card application.

What advantage/s does an online credit card application offer?

The bottom line of online credit card applications is "convenience". Online application is a dream-come-true to future cardholders. Imagine not having to queue in long lines just to have a credit card approved. No travel cost just to get to the card company's office.

Since everything is computerized and automated, processing of the application is faster and more efficient.

What is/are the drawback/s of online credit card application?

The major drawback in applying for a credit card online is Internet security: computer hacking makes identity theft possible. Make sure that online application is done through a trusted and secure computer.

Do credit cards applied for online offer additional benefits?

No, basically all the services and benefits are the same. Here are some of the benefits given to cardholders and future members:

1. Airline miles
2. Cash back
3. Business
4. Retail
5. Shopping
6. Rewards

How does one apply for a credit card online?

Online credit card application is very straightforward. Just follow the directions as prompted. Credit card companies have their respective web sites, which are easy to search in the web. Just type the name of the bank, department store/specialty shop, or airlines and add the key words "online credit card application", and the computer screen will display the search results as well as the URL.

Here are some other reminders when applying for a credit card online:

1. Determine your need for a credit card: travel, grocery, and business.

2. Assess your earning capacity and compare this against your needs.

3. Look around the web for the credit card that matches your needs.

4. Check out the following information about your prospective credit card company through the Internet:

5. Application fee. Some companies do not charge for applications.

6. Interest per month. Of course, choose the one with the lowest financial charges.

7. Benefits/Rewards/Advantages. These can sometimes spell the difference between good and best credit cards.

8. Disclaimer. This states additional limitations and/or scope to the credit card; make sure you read this.

9. Application requirements. This is to ensure that all necessary personal data and information are available to you when you do the actual online application.

10. Apply for a credit card online through a secure, trusted, and private computer, never from a public computer.

Indeed, there are lots of rewards and 0% APR credit cards out there. But if it will not work for those who do not really them because of the mentioned situations, then it's best not to have them at all. Besides, the best 0% reward is not to have a credit card at all.

Cash It Back with Credit Cards

A cash back credit card gives annual rebates or gives back money to the card holder based on how much have been purchased with it. This type of credit card is suitable for those who rarely use cash in their transactions. The rebate is computed as a percentage of the total amount charged to the credit card in a year. Usually, rebates are between 1-2%. Some can even go as high as 3%.

Are rebates always in the form of cash?

Strictly speaking, cash rebates should be in the form of cash. But now that card companies are diversifying, rebates may now come in the form of gift certificates and discount coupons. This somehow blurs the line between and among the different types of credit cards mentioned in the first paragraph of this article.

Some cash back credit cards offer upgrading of membership status, which allow their members more discounts and gifts during anniversaries and holidays like Christmas and birthdays. Moreover, some credit card companies also have partnerships with other consumer products that entitle their members to add product discounts in future purchases.

What banks offer cash back credit cards?

There are many banks that offer cash back credit cards in kind. They usually have a rewards program for members wherein cardholders receive gifts and discounts courtesy of partner product companies; discount coupons to hotels, restaurants, specialty stores; and travel miles for non-travel purchases. Below are some banks that offer cash back benefits.

1. Citibank

2. Chevy Chase Bank

3. HSBC

4. Royal Bank Avion (Canada)

5. Standard Chartered Bank

Are cash back credit cards offered only by banks?

No. Since business establishments are innovating their services and benefits for their customers, some of them offer cash back to their loyal customers e.g. Discover Card (Discover Magazine). Aside from giving book and magazine discounts, airline miles are also offered by Discover Card. Big grocery stores such as Kroger's, Wal-Mart, and Bi-Lo offer cash back but in the form of cash certificates and discount coupons.

How does one get a cash back credit card?

Since almost all credit card companies (e.g. banks, stores, airlines) offer cash (or in kind) back benefits, all that has to be done is to file an application in any of their office or stores, or signup online by visiting their web sites. Just be a word of caution for online applications, make sure that the transaction is made through a secure Internet connection since identity theft has become rampant with the advent of credit card use.

Borrowing Money For a Business

When you need to borrow money to start a new business or fund an existing one you have all of the options we have discussed thus far as well as several others. Now we will go into some of the other options you have for borrowing money when it is for your business. They range from investors to government lending programs.

Leasing Companies

When you need money for your business a leasing company might be a good alternative to a traditional loan. Leasing companies will allow you to rent the assets you need as opposed to borrowing the money to rent them. This could mean lower monthly payments.

Private Investors

When you need money for a business, it may sometimes be beneficial to look into the option of finding an investor or partner. This could range from a family member to a close personal friend to anyone who has a common interest in your business.

There are networks of wealthy individuals called “Angels” who look to invest in companies just to increase their wealth. You want to find someone who has an interest in your venture. Apple Computers and Intel are examples of businesses that were helped by “Angels”. They range from people who just want to do good to friends or neighbors who want to invest hoping you will be wildly successful. You can find these “Angels” through referrals from accountants or attorneys as well as non-profit angel networks. There are also web sites that search for angels to match with the prospective business owner. We would recommend that you do your homework on this option if you are looking to start a business because it is becoming more and more popular.

State and Local Government Lending Programs

There are state and local programs that will provide capital or support and even loans for some small businesses just to foster the economic development of some areas. The terms will usually be regulated by the state or local agency. You just need to check with your own state or local government agency.

Partnership

Sometimes when you need money to start or sustain a business finding a partner to invest may be an option for you. A partnership usually means that one or more investors would jointly own the company with you. You would have to be willing to share the profits and the losses with someone else. Some partners will want to be involved in the day-to-day business and some will not. The best place to look would be someone with a common interest as you, possibly someone with a business similar to yours. We would recommend that before you go into business with a partner you have something in writing so that both parties understand the terms and agreements of the loan and the liabilities be spelled out clearly.

We have discussed several different options where you can go to get a loan and depending on your own situation one of them may be right for you. In the next chapter we are going to go over how to apply for a loan. Sometimes this can be the most stressful part of the loan process but it doesn’t have to be. We will attempt to break it down and hopefully take away some of the stress. The more you know about the whole loan process the better off you will be.

How Do I Apply for a Loan?

We have already discussed all the reasons you might need to borrow money and the different types of loans available as well as all the options of where to go to get the loan. Now we are going to get into how to apply for a loan. The first thing you need to decide is exactly how much money you need. You don't want to ask for too little or too much. So the first step will be how much money do I need? There are also different plans when borrowing money for a business compared to a home loan or vehicle loan.

We will start with the business loan.

Business Loan

Although we just discussed borrowing money for a business, we've includede additional tips that will help you prepare.

You will definitely want to be prepared when you walk through the doors of a lending institution.

Be prepared to show three consecutive tax returns, financial statements for the business. They may also want to see balance sheets, profits and loss statements, accounts receivable, debt schedules and projections for the next 12 months.

The lender may even want to see a Business Plan. Normally you will be assigned a loan officer and you will have to go through an interview.

These are just a few of the questions you may want to be prepared to answer:

- How and why did you decide to start or buy this business?
- Do you have any personal experience in the business?
- Are you planning to change the business and if so why?

- If you are buying a preexisting business, why is it being sold?
- How was the purchase price determined?
- Is the inventory outdated?
- What are the terms of the lease if there is one?
- Do you need a license and will it be in your name when you purchase the business?

You will also need your employment details, details of any outstanding loans or credit commitments as well as banking details. This is where the 5 C's of Credit come into play. They are:

- **Character-** does the business and yourself have good credit
- **Cash Flow-** Is the business profitable
- **Collateral-** Do you have collateral if it's needed? Be prepared to be asked to put your home up for collateral.
- **Capital-** Be prepared to put 10-20% for down payment. Normally it cannot be borrowed money.
- **Conditions-** Prepare to discuss the local economy, competition and the future of the business.

Home Loans

Home loans are different than business loans. There are many different loans that you can get and depending on your credit many different options. Most home loans go off a debt to income ratio so you may not know how much home you qualify for and different loans have different debt to income ratios. We are going to start with assuming that you have good credit and you are ready to buy a home. You can call any lending institution and simply tell them that you have good credit and ask them what would be the best interest rate they could give you.

Now once you have shopped around and finally decided where you want to go to get your loan you will have to go in and meet with a loan officer. They will have you fill out a pre-approval for a loan application and within a day or two be able to tell you how much money you qualify for to buy a home. Basically what they do is just get your credit score not your whole credit report.

After you have been pre-approved for a loan of a certain amount then you can go and shop for your new home. Maybe you have already found it and if so great then you can move on to the next step. If not, loan pre-approvals are usually good for six months so you have time to find a home. Once you have found your home that you want to buy you will have to go back into the lending institution and fill out a formal loan application.

The formal loan application means that the lending institution will ask you to sign for them to run your full credit report. We have already discussed this in detail but what it means is that the lending institution will be able to see everything about your credit. How you pay your bills and every late payment will be documented on the credit report. It also helps the lending institution to see what type of loan you qualify for.

They may come back to you and tell you that you can have the loan with contingencies. They may want you to pay off a credit card debt or be on time with a certain bill for some amount of time. Usually the loan with contingencies will be good for up to six months. If your credit is decent the lending institution will usually work with you any way they can because they want your business. After all this has been taken care of the next and final step will be the Closing. The lending institution will usually schedule the closing with a Closing Company.

The closing is the date in which you actually buy the house. Papers will be signed and the money will switch hands. Some of the things that you may want to be prepared to have are the escrow money, which is the money for the down payment.

You will also want to be prepared for some of the closing costs and what they are.

- Origination fee
- Appraisal fee
- Fee for the deed
- Taxes
- Mortgage Insurance or proof of insurance
- Survey fees
- Inspection fees
- Document preparation fees

These are just some of the things that can be included in your closing costs and depending on the contract the seller may actually pay up to 3% of the closing costs. You will want to do your homework and familiarize yourself with some of these terms when buying a home. It can only be to your benefit and it won't take a lot of time.

Cleaning Up Your Credit

If you have ever applied for a loan, credit card or insurance there is a file on you. This is known as your personal credit report. It is full of information on where you live, how you pay your bills and whether you have ever been sued, arrested or filled for bankruptcy. Your credit report is used to evaluate applications for credit, insurance, leases and even employment.

Good credit means better loans and lower interest rates and lower interest rates generally mean lower monthly payments. People generally know if they have good credit or not even without the report in hand, but it would be recommended that you get a copy of your report and check for things that you may have forgotten about and just to see if there are any mistakes because mistakes on credit reports do happen.

Even if your credit score is low and the report isn't so great it can be "cleaned" up. Something that you need to keep in mind is that after you have gotten on the straight and narrow and cleaned up your credit, it generally needs to stay that way for up to 12 months before you can get a loan. So if you are just getting started it may take up to 18 months before you can qualify for a loan.

Your Credit Report Can Be
The Envy Of All Your Neighbors!

Sometimes, by the time you find out that there is such a thing as AAA credit, you don't have it anymore. It is possible to repair your credit once things have gone wrong and reestablish credit at that level, but beware of gimmicks. There are the obvious options of bankruptcy, credit counseling, and debt negotiation in order to get your credit cleaned up. Those are viable options, but you may be disappointed to find out that they will take some time to reestablish your credit rating—sometimes years. Many people try and bypass these common sense methods and instead turn to the plethora of books and videos that promise to give you an "AAA Credit Rating in 30-Days." They make promises of credit 'secrets," and amazing tricks that they will share with you—for a fee.

Unfortunately, all of these are either scams, or someone packaging and selling information that's available for free. In short, if your goal is to reestablish AAA credit, it might be best to take the long road instead of the quick fix.

If you are just starting out with a clean slate and want to build fabulous credit and keep it, the first thing you'll need to do is to set up a checking and a savings account. Points will be deducted from your score if you don't have them. If you don't have any credit history, begin by getting a credit card that has a manageable limit and low interest rate. Secondly, don't borrow more than you can pay back. As you begin to use credit cards, which are an excellent way to build AAA credit, make sure you don't go over credit limits or keep balances too high.

Eventually, you will want to own two to four cards. This will help your score because it shows lenders that you are managing your credit and you can handle the responsibility. If you are trying to rebuild, you may have to start with a secured credit card, and then build from there.

It's important to keep your debt to income ratio under 20 percent, and don't make too many requests for additional credit. Every inquiry for a credit card or a loan shows on your report. If there are more than four over the past year, that's a strike against you. Stability with your home and your employment helps a great deal in establishing AAA credit. If you've been in your home four years or longer, and with your current employer for five years or more, you add more points to your score.

Finally, make sure to monitor your credit history. There are agencies that will send you notification every time someone makes an inquiry on your report and will allow you a certain number of requests for your credit report per year. If you don't require that much monitoring, just request a copy of your report once a year from each bureau. Look it over carefully and then follow the procedures to challenge any errors in writing. If you are diligent and responsible, you will have AAA credit before you know it!

Getting Your Credit Report

The first thing you are going to have to do is get a copy of your credit report and there are a couple of different ways that you can go about it. We talked about it earlier in the book but everyone is eligible for a copy of his or her credit report. You can write or fax any of the three different credit-reporting agencies and receive a free copy of your credit report. Everyone is eligible for one free report a year.

You can do it yourself or you can go to a mortgage company and they will not only get a copy of your credit report for you but they will help you with what you need to do to clean it up. It may cost $10-15 for the credit report but it could be beneficial to you in the long run to have the hands on help and many times there is no binding agreement that you have to go with this certain lending agent. They mainly want to build a relationship with you in the hopes that you will choose to go with them.

So that gives you a couple of different options when it comes to getting a copy of your credit report but something to keep in mind if you decide to do it yourself is medical bills. Past medical bills cannot be held against you when applying for a loan as long as you have been making an attempt to pay them off. It is a situation that is considered out of your control and it won't be held against you as long as you are paying on them every month.

Avoiding Credit Repair Scams

If you have less than perfect credit, you've probably seen advertisements for credit repair services. In newspapers, TV, radio, and on the Internet credit repair services claim to be able to remove bankruptcies, create new credit identities, and even erase bad credit.

Unfortunately, many of these credit repair companies exist only to cheat money out of their customers. After you've paid them hundreds of dollars in fees, these credit repair companies simply vanish because they can't deliver what they have promised. The only real way to improve your credit report is with time, effort, and a personal debt repayment plan.

If you decide to work with a credit repair service, there are certain warning signs you should look for to decide if the company is legitimate. A credit repair service should not want you to pay for credit repair services before any services are provided. Another warning sign is if a credit repair service recommends that you not contact the credit bureau directly or refuses to answer questions about your legal rights as a debtor.

Some phony credit repair services will advise you to dispute all information in your credit report or take any action that seems illegal, such as creating a new credit identity by applying for an Employer Identification Number to use instead of your Social Security Number. If you follow illegal advice and commit fraud, you may be subject to prosecution. It's a federal crime to make false statements on a loan or credit application, to misrepresent your Social Security Number, or to obtain an Employer Identification Number from the IRS under false pretenses.

Negative information on your credit report is generally reported for seven years. Bankruptcy information can be reported for ten years. Default information regarding US government insured or guaranteed student loans can be reported for seven years.

While no one can legally remove accurate and timely negative information from a credit report, the good news is that the law does allow you to request a reinvestigation of information in your file that you dispute as inaccurate or incomplete.

According to the Fair Credit Reporting Act, you can dispute mistakes or outdated items for free. Ask the credit-reporting agency for a dispute form or submit your dispute in writing. Include supporting documentation, clearly identify each item in your report that you dispute, explain why you dispute the information, and request a reinvestigation. Make sure you remember to keep a copy of the dispute for your records. If the new investigation reveals an error, ask that a corrected version of the report be sent to anyone who received your report within the past six months. If the reinvestigation does not resolve your dispute, have the credit bureau include your version of the dispute in future reports.

Many states have laws regulating credit repair companies. If you believe you have been cheated by a fraudulent credit repair service, don't hesitate to report the company to your local consumer affairs office or your state attorney general.

Credit Scores

A Credit Score is a number by which creditors determine how likely you are to make your payments on time. The higher the score the better and generally the higher the score the lower the interest rate. The lower the interest rate the better because over the life of the loan depending on how much money you borrow, a few points could save you thousands of dollars.

The number score ranges from 300-850 and is called your FICO score developed by Fair Isaac Corporation. It is today's most commonly used scoring system. Lenders will buy your score from the three different credit bureaus, Equifax, Experian and TransUnion. Any score over 700 is generally considered to be "excellent". Your FICO score is based on five different things:

- Your payment history-35%
- How much you owe-30%
- Length of credit history-15%
- New credit-10%
- Other Factors-10%

Your payment history would be how you pay your bills and whether they are on time and if you have ever had a bankruptcy. How much you owe is just as it sounds, just how much debt do you have and the lower the better. The length of your credit history would be how long you have been in the system and how long you have been paying off your creditors and how well. New credit would be how often you have applied for credit cards or loans. Other factors could include how many different types of credit you have such as car loans, mortgages and credit cards as well as personal lines of credit. Generally the longer your credit history the more kinds of credit you will have been likely to have. Here are a couple of different examples of how things can affect your credit scores and the kind of things that can bring your score back up.

Many thanks to the GSA for providing these examples.

Examples

Meet Tina, A Single Mother

Behavior of action	Change in score	Vera's current FICO score
March 2005 Tina and husband Sean have been married for 14 years. They have one daughter Susie, age 4. Financially they are making payments on time for two car loans, one mortgage and four credit cards, which have low balances. But sadly, their marriage has deteriorated and they agree to divorce. In the settlement Tina retains custody of Susie. Sean takes one of the cars and responsibility for its loan. He also takes two of their four credit cards, and agrees to pay 50 percent of the monthly mortgage payments.	---	**780**
May Sean struggles financially following the divorce and runs up his two credit cards to nearly their limit. Tina doesn't realize her name is still on the	**-80**	**700**

card accounts Sean is using.		
July Sean continues to struggle and misses payments on both cards. Both cards still are nearly maxed out.	**-100**	**600**
August Tina gets a call from her bank about the missed payments. Once she understands what has happened, she contacts Sean and asks him to roll over the balances on both cards to a new card that he opens in his name only, which he does. Paying off the two accounts improves her score.	**+80**	**680**
February 2005 Tina continues to manage her money carefully, paying her bills on time and keeping her two card balances low. Meanwhile the two missed payments get older on her credit file and have less impact to her score. Sean lands a better job and makes his part of the mortgage payments on time.	**+40**	**720**
March Tina's car breaks down. Since she relies on it to get to work and to take Susie to preschool, she has no choice but to have it repaired. To pay the garage she maxes out one of her credit cards.	**-80**	**640**
April Since Tina needs a reliable car, she asks her bank	**---**	**640**

about auto loan rates. They tell her that her credit score is too low to qualify her for their best rate. Since money is tight, she waits to buy a car.		
July Tina has steadily paid down her high credit card balance and monitored her score. When her score has improved, Tina applies and is approved for an excellent rate on an auto loan. She buys a used car and feels good about how she has managed her credit.	**+40**	**680**

Now Meet Tom and Linda

Behavior of action	Change in score	Don and Doris's current FICO score
March 2003 Tom and Linda are married and in their 50s. They have twin sons who graduated from college a year ago, have good jobs and live in different states. Tom and Linda have been managing their money carefully for 30 years. They are making payments on a mortgage, three credit cards with large balances, and a $50,000 bank loan that paid for their sons' college. Now that their sons are on their own financially, Tom and Linda focus on paying down their credit card balances by making larger monthly payments and using their cards	**---**	**690**

sparingly.		
March 2003 After a year of steady payments, their credit card balances are significantly lower. They continue to manage their credit well and haven't opened any new accounts.	**+50**	**740**
June The couple decides to go on an extended vacation, taking leaves of absence from the jobs to so they can tour the U.S. in a motor home. They buy their motor home with help from a new bank loan at a favorable rate, thanks to their good credit scores. But opening the new loan lowers their scores a bit. Since their plans will keep them on the road for three months, they put one of their sons in charge of paying their monthly bills.	**-20**	**720**
September They have a wonderful vacation. When they return, they find they had neglected to tell their son about the bank loan. He didn't open the invoices they received from the bank thinking they were monthly account statements. Now their bank loan payment is 60 days late.	**-75**	**645**
October Linda calls the bank, explains the mix-up and sends in the overdue payments immediately. A couple of weeks later their bank conveys their	**+20**	**665**

new account information to the credit reporting agencies, where it is available to influence their credit scores.		
April 2004 After six more months of on-time payments, their credit scores have steadily improved. Although the late payment will remain on their credit reports for seven years, it will impact their scores less as time passes. Tom and Linda are on track once again to regain their good FICO credit scores in the 700s.	**+30**	**695**
* Tom and Linda have separate FICO score, but in this example, they would rise and fall together.		

These are just a couple of examples of the different things that can influence your credit score and now here are a few points on how you can improve your score.

- Pay your bills on time
- Keep balances low on credit cards
- Apply for new lines of credit only when you need them
- Check your report for accuracy and contact the agency to correct any errors
- If you have missed any payments, get current and stay current

Why Your Checking Account
Is Vital To Your Credit History

If you've been doing any research about how to get and then maintain a good credit report, then you've undoubtedly read a lot about how to manage credit cards and other types of loans. But did you know that your checking account also plays an important part in your overall score? Why? Because the way you handle your checking account will be reflected in your credit report. In other words, if you write checks that are reported as insufficient funds, that information will be reported.

If this happens, it may make it virtually impossible to open another bank account, or even have the ability to write checks in stores, depending on your specific situation. In addition, each bounced check may stay on your credit report for seven years. Don't let this happen to you!

Instead, learn how to manage your checking account responsibly, and use it to your advantage in credit situations. Here are some tips that will help you get started on the right road.

- Always know how much is in your checking account. This may sound basic, but many people simply log their checks and the associated payment in the debit column, but never bother to balance the account. They believe that they can keep a "running balance" in their head. This may work well for millionaires, but if you haven't reached that status, don't do it! It only takes a penny for you to go over your limit, and that will result in a bounced check, the scar on your credit history, plus all of the fees associated with it.

- In addition, it's important for you to reconcile your account balance each and every month when you receive your bank statement. You'll find an easy, step-by-step guide on the back of your statement. Don't skip this vital step—the results could be a bounced check.

- If you decide to close one checking account and open another one, be sure to open the new account before closing the old one. Why? Because of tightened restrictions, you will have an easier time opening an account if it is a second one.

- If you do decide to close an account, it is vital that you don't withdraw or transfer your money to the new one until you have paid all of the outstanding checks in the old one. Reconcile your balance, and then look for any outstanding check numbers that haven't cleared. (There have been instances when an old check hasn't been cashed for some reason, and then once the account is closed, the check is submitted for payment. This results in a bounced check.) If you find outstanding check numbers, contact the people to find out why the check hasn't been presented for payment.

By carefully balancing your checking account each and every month and making sure that you never write bad checks, you will go a long way in keeping negative remarks off of your credit report.

Three Mistakes That Could Hurt Your Credit Score

We all know that that a good credit score is the key to low-interest loans and credit cards with good terms, but oftentimes people make mistakes on their credit histories without even realizing it. If you are interested in building your credit, or in keeping your credit history good, you should read the following suggestions. Who knows? You may just be making some mistakes that you're not even aware of.

Mistake # 1

The first and most common mistake is missing payments or making late payments. This sounds obvious, but day after day, people continue to pay their bills late, not realizing that it is doing harm to their credit score. Every time you make a payment to any of your lenders, they report what amount you have paid, and whether you were on time or late. In addition, they will report how late you were, and your record of "lateness" will be represented on your report. What does this mean? If a potential lender sees that you were late two times last year, and only about a week each time, they may be able to forgive it, knowing that life simply gets in the way of on-time payments sometimes. But if it's clear that you have a habitual pattern of paying your bills late, they will think twice about lending you money. What's more, the later you are, the worse it will look in a lender's eyes.

Mistake # 2

At first glance, it may seem like a good idea to close the credit card accounts that you aren't using, but in reality, that could hurt your credit score. There are two reasons why this isn't such a good idea.

First, if you have a good history with the credit card company, then you will be wiping off that history from your credit record. (Remember, everything that isn't active automatically drops off your report after seven years.) You worked hard to build that history, don't take it off!

Next, if you have a credit card that you're not using, that means that you have available credit that you're not using, and that can go a long way in adding positively to your credit score.

Instead of dropping the account, simply use it every now and then, pay it off in full when the bill comes and allow it add to your positive credit score.

Mistake # 3

Finally, shopping for credit can hurt your credit score. The credit agencies are notified every time there is an "inquiry" about your credit history, and if you get too many inquires, that will hurt your score. No one (except the credit reporting agencies) knows the formula for how many inquires will hurt your report, but the general rule of thumb is simply not to apply for credit unless it's absolutely necessary. By doing so, you run the risk of having to pay higher interest rates, or being turned down for credit.

Pay attention to these three factors on your credit report, and keep your credit score in good shape!

Last Words from Patty and Lori

We hope you have enjoyed reading and sincerely hope that the information we have compiled for you is helpful.

Much of what we shared is repetitious. This is intentional. The subject of your finances is extremely important to your overall financial good health. Whether it is purchasing your own home, a vehicle, or a desire to start your own business the information will help you make appropriate decisions.

If you have learned anything new, that you can put to work in your life, our purpose in preparing it is fulfilled.

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