**Establishing Credit**

* Creditors only lend to people who can be expected to pay them back
* Creditors look at credit-related information to determine if one is a good risk
* A creditor’s evaluation of one’s ability and willingness to repay debts is a credit rating
* Credit ratings are based on 3 Cs
* Character---a person’s reputation for being honest and their financial history
* Capacity---a person’s employment history and ability to earn money
* Capital---a person’s financial worth
* Ways to establish credit

**Loan Sources**

* Preferred lenders
* Most reliable lenders
* Examples: banks, credit unions, savings and loan associations, consumer finance companies, insurance policy loans, credit card companies, private loans
* Non-preferred lenders
* May take advantage of people with poor credit; typically charge high interest rates
* Examples: “payday” lenders, pawnbrokers, loan sharks, auto title loan lenders, tax refund loan
* Conditions of loans
* Annual fees
* Annual percentage rate (APR)---the amount and whether it changes
* Method used to calculate interest
* Minimum payment
* Grace period
* Minimum finance charge and other fees
* Credit limit
* Special features and services
* Cautions when seeking loans
* Always “read the fine print” and know the terms of loans before signing
* Consider if this would be wise or unwise use of credit
* Remember that, once signed, borrowers are bound by the terms of the agreement
* Consumers can apply for loans in person, online, over the telephone or in writing
* Typically, provide information about income, employment history, residence, credit history
* The lender will likely run a credit check.
* If approved, borrowers may have right to rescission (cancel) within three days if they choose; a provision of the Truth in Lending Act