THE ROAD TO GOOD CREDIT:

HOW TO START BUILDING YOUR CREDIT WITH IN-HOUSE AUTO FINANCING

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INTRODUCTION

IN TODAY'S ECONOMY, A PERSON'S CREDIT SCORE CAN HAVE A SIGNIFICANT IMPACT ON THEIR OVERALL QUALITY OF LIFE. MOST MAJOR PURCHASES OR BUSINESS DEALS REQUIRE SOME FORM OF CREDIT FINANCING.
A LOW (OR NON-EXISTENT) CREDIT SCORE MAKES IT DIFFICULT TO OBTAIN SUCH FINANCING, WHETHER IT BE A BUSINESS LOAN, HOME MORTGAGE, AUTO LOAN OR SOME OTHER FORM OF CREDIT.

Even if a person is approved for a loan, a low credit score will usually result in higher interest rates, which means they will end up paying more overall than someone with a good credit score. And some employers even check the credit scores of job applicants; if their credit score is low, it can be seen as an indicator that the applicant is irresponsible and would not be a reliable employee.

Therefore, it is a worthwhile investment to build and maintain a good credit score.

One effective way to start building or rebuilding your credit score is to use in-house auto financing to buy your next car. In-house auto financing is an attainable, affordable form of credit that many people with low or non-existent credit scores can qualify for. It provides a way to build a positive credit history in a way that increases your credit score and makes it easier to get other types of financing.

In this guide, we will explore what a credit score actually means, how it is calculated and what factors contribute to having a higher or lower score. We will then explain the various ways in which you can improve your credit score, and show how in-house auto financing offers an ideal solution to those who otherwise might have difficulty building good credit.

61 million people have subprime credit scores (500-649).

99 million people have prime credit scores (651-749) and 12 million have superprime credit scores (750-800+) (Source: The Nilson Report)

What is a credit score?

A credit score is a number that grades how risky it would be to loan money to a particular person. If someone has a good history of handling credit and paying off loans on time, they would be considered a low credit risk and therefore have a high credit score. If someone has had trouble paying off loans on time, owes too much money or simply doesn't have much experience in handing credit, they would be considered a riskier investment and would have a relatively low credit score.

There are different ways to calculate credit risk, but the most common scale (and the one people refer to when talking about a "credit score") is the FICO score. "FICO" is short for "Fair, Isaac and Company," which is the name of the firm that first developed the method of calculating such scores in the 1950s. FICO credit scores range from 300 to 850, although it is possible to have no credit history at all and therefore have essentially a zero score.

The average credit score is around 700. Any score above 725 would be considered "good" or "excellent." Anything below 675 would be "fair" at best, and a score below 620 would rate as "poor" or "bad."

Excellent	750 and up
Good	660-749
Fair	620-659
Poor	619 and below

Source: gocleancredit.com

How credit scores are calculated

Credit scores are calculated based on five factors, each of which is weighted differently. The five factors are:

- Payment history
- Amount of debt
- Length of credit history
- Types of credit used
- New credit

Payment history

The single biggest factor in determining someone's credit score is their history of making payments on time. Payment history makes up 35 percent of the overall credit score.

Lending companies want to know that they will get their money back, with interest, on the schedule they set. The best way to predict whether a particular person will make payments on time is to look at whether they have been reliable at making payments in the past.

The payment history score is mostly based on repaying debts. Examples of common debt payments include:

- Credit card bills
- Car payments
- Mortgage payments
- Paying off cash advances or short-term loans

Other types of payments can also factor into the calculations, though, even if they are not generally considered to be loans. Being late on your electricity or phone bill, for instance, can negatively impact your credit score.

The more times that someone is late with a payment, and the more time that passes before they finally do pay, the lower their payment history score will be. And filing for bankruptcy has a huge negative impact on a person's payment history, since it means they were unable to pay off the debts they incurred.

Amount of debt

The second biggest credit score factor is the amount of money a person owes. A person's total amount of debt accounts for 30 percent their credit score.

The amount of debt is looked at from three different angles:

- The total dollar amount owed. The more debt a person is carrying, the lower their credit score will be.
- The number of debts. If someone owes money on a large number of credit accounts, their score will be lower than if they owed the same amount of money on just one account. For example, if someone has three credit cards and owes $1,000 on each, that will be seen as somewhat less

desirable than having one credit card with a $3,000 balance.

- The credit utilization ratio. This is the total amount of debt owed divided by the total credit limit available to the individual. For example, if someone owes $3,000 on a credit card that has a $10,000 credit limit, their credit utilization ratio for that card is 30 percent. A higher credit utilization ratio will result in a lower credit score, because that person is closer to maxing out the amount of credit that they have qualified for.

Length of credit history

Experience counts when it comes to credit scores. If someone has more experience properly handling debt, they are considered to be less of a credit risk. Having a long credit history also gives the credit rating services more data to work with, which increases the accuracy of their calculations. Because of this, the length of a person's credit history is factored into their credit scores, and accounts for 15 percent of the FICO total.

The scoring for length of credit history looks at both the length of time since the oldest credit account was established and the average age of all of a person's credit accounts. So, it is beneficial to establish credit early, and to maintain a credit account over time. For instance, canceling one credit card in order to replace it with another could negatively impact a person's credit score, because it would lower the average age of their credit accounts.

Note that it takes at least six months of credit history before a person will even be issued a credit score. So, although length of credit history officially counts for just 15 percent of a credit score, it holds veto power over whether a person will have a credit score at all.

Types of credit used

Another way in which experience counts when calculating credit scores is by demonstrating experience with more than one type of credit. Having experience with multiple types of credit satisfies 10 percent of the credit score calculation.

Variety is the goal with this metric. If someone shows that they can responsibly handle different types of loans or credit arrangements, they are considered to be a lower credit risk.

There are many potential types of credit available. Examples of individual credit types include:

- Mortgages
- Auto loans
- Bank credit cards
- Gas station credit cards
- Retail store credit cards
- Installment loans
- Payday cash advances
- Business lines of credit

> REMEMBER THAT CREDIT IS MONEY. BENJAMIN FRANKLIN

New credit

The final factor that goes into calculating credit scores is new credit. New credit makes up 10 percent of the FICO calculations.

New credit includes both recently added credit accounts and recent credit inquiries. A credit inquiry occurs any time someone else checks your credit score with one of the credit reporting agencies. Credit inquiries are usually the result of applying for a new loan or line of credit; the lending company will usually look up the applicant's credit score to determine if they qualify for the loan.

New credit and credit inquiries negatively impact a person's credit score, but only temporarily. After six months to a year, the new credit accounts or inquiries are no longer considered "new." The individual will have had time to demonstrate that they can handle the new credit and make payments on time.

Ways to improve credit scores

As mentioned earlier, having a low credit score (or no credit score at all) can cause numerous problems, which often build upon each other. For instance:

- A low credit score can make it difficult to get a loan to buy a car or home.
- If a loan is approved, the interest rates or fees will be higher, increasing the cost of borrowing.
- Without reliable transportation, it can be more difficult to commute to work.
- In some cases, a low credit score can make it more difficult to get hired for a particular job.
- Without a well-paying job, it is more difficult to afford the higher interest rates.
- If the higher living expenses or loan repayments make it difficult to pay on time, the person's credit score will drop further, exacerbating the problem.

And so on. Suffice it to say, you want your credit score to rank as highly as possible.

Once you understand the factors that go into calculating a credit score, you can take steps to start building or rebuilding your credit.

Below are steps that you can take to start improving your credit score.

Check your credit report for errors.

According to the Federal Trade Commission, as many as 42 million Americans currently have errors on at least one of their credit reports.

Each individual actually has three FICO scores, which are averaged to obtain your official credit score. The three scores are provided by three different companies: Experian, Equifax and TransUnion. These companies are required, by law, to provide any individual a free copy of their personal credit report if they request it (though the companies only have to provide it for free once per year). The individual can then look at the three credit reports and request that any errors be removed. Items typically stay on a credit report for seven to 10 years, so uncorrected errors can affect your credit score for nearly a decade.

Free credit reports can be obtained from all three agencies at www.AnnualCreditReport.com. Remember that they are legally required to provide this service for free; you do not have to enroll in a separate paid service to get access, as some companies advertise.

Pay your bills on time.

Again, this is the biggest single factor that influences credit scores.

The longer a payment is overdue, the bigger the impact it will have on your credit score. So, even if a payment is past due, you can limit the damage by paying it as soon as possible. If you know a payment is going to be late, it can be helpful to call the company and discuss ways to remedy the situation without damaging your credit reputation. And if you can pay part of the bill on time, it is better to do so and then pay the rest as soon as money is available.

Pay down your debt.

Besides reducing the amount you owe, paying off debt will reduce your credit utilization ratio. And if you pay off one or more accounts fully, you will reduce the number of debtors owed--which completes the trifecta of factors that go into improving your "amount of debt" score.

Increase (or at least maintain) your available credit limit.

Paying off debt is one way to improve your credit utilization ratio; the other way is to increase the credit limit it is measured against. If you cannot get your credit limit raised, you can at least keep the ratio from getting worse by not canceling an existing, but unused, line of credit.

Don't use your credit cards unnecessarily.

Credit cards are often used for everyday purchases simply because they are more convenient than cash. But utilizing credit cards in this way also means you are utilizing more of your credit limit, and increasing your credit utilization ratio. So, pay cash if you can.

Favor old credit over new.

Because having a long credit history is a good thing, keeping that first credit card around can benefit your credit score. Accepting a new credit card, however, will lower the average age of your credit and could cause the temporary "new credit" penalty.

Establish a credit history.

Of course, many of these methods for improving your credit score only work if you already have access to lines of credit and have the financial flexibility to reduce your debts. If you have a poor credit history, or no credit history at all, you may have a difficult time obtaining the credit necessary to build up your score. It is a credit catch-22.

One solution to this problem is to start building or rebuilding your credit with in-house auto financing.

How in-house auto financing can help

In-house auto financing gives those with less-than-stellar credit a way to improve their credit scores, while at the same time helping them afford a high-quality car or SUV.

What is in-house auto financing?

In-house auto financing, also known as "buy here pay here" financing, is a credit arrangement in which the car dealership itself provides the financing. This differs from a traditional car loan, which is provided by an outside bank or other lending institution.

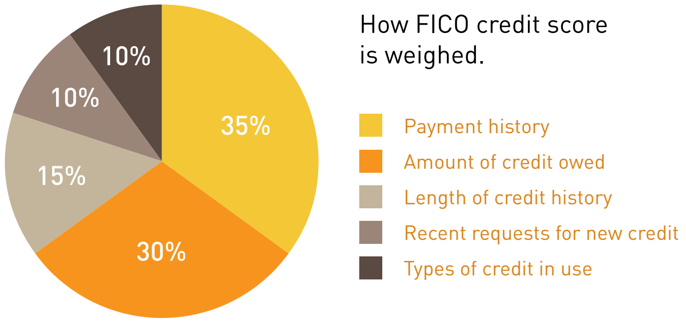
Benefits of in-house auto financing

The most important aspect of in-house auto financing is that it is available to many people who would be turned down for a bank loan due to their low credit score or lack of credit history.

A car dealership that provides in-house auto financing is able to provide more favorable credit terms because they are in the business of selling cars, not loans. A bank or outside lender must ensure that it can make a profit off the interest and fees on the loan itself, and faces restrictions on the amount of credit risk it can accept. There is little incentive for them to take a chance on someone with a low credit score. A car dealership, on the other hand, only makes a profit when a car is sold. There is a strong incentive for the dealership to work with the customer to find a financing plan that will work for both parties involved. There is also more flexibility to take a chance on someone who is trying to build their credit history.

In-house auto financing can help you improve your credit score in several ways:

- **Building a positive payment history.** By providing affordable credit terms to those who otherwise might have a difficult time getting a loan, in-house auto financing provides the opportunity to build up a history of making credit payments on time.
- **Reporting results to the credit agencies.** Many people with poor credit believe that their best automotive option is to buy a used car from a private party, and work out a payment plan with that individual. From a credit standpoint, the problem with that approach is that the payments do not show up on the three credit agencies' radar; successfully paying off the car makes zero difference on your credit report. By financing through a dealership that does report to the credit agencies, those same payments will help improve your credit score.



How FICO credit score is weighed.

- **Affording a better car.** Because the payments can be spread out over a longer financing period than most private parties would allow, in-house auto financing allows you to more easily afford a newer, nicer, more dependable car. And for some people, reliable transportation can make it easier to get a higher-paying job and afford to pay down the loan faster.
- **Allowing a cosigner.** Someone with no credit, such as a first-time buyer, may be able to have a family member with a good credit history cosign an in-house auto loan. This can qualify you for a car loan that would otherwise be unattainable, and provide that early first step towards establishing a long credit history.
- **Demonstrating experience with more types of credit.** An in-house auto loan adds to your credit history portfolio, showing that you have experience with multiple types of credit.

Once the responsible use of in-house auto financing has improved your credit score, it will be easier to get other necessary financing, such as a home mortgage or business loan. And better credit will earn you lower interest rates on those loans, saving you money overall.

Conclusion

Whether good or bad, your credit score is not something that developed overnight. Affecting changes in your credit score, or establishing a new credit history, will likewise take time. Improving your credit score could really be seen as a lifelong process of making responsible financial decisions and utilizing credit wisely. In-house auto financing can be a valuable first, or next, step in that credit-building process.

If you are interested in affordable in-house auto financing on high-quality cars and SUVs in the Houston area, call on the experts at Shabana Motors. We have a wide selection of late-model used vehicles, ranging from luxury to economy models, and have something to fit almost any budget or style. Our in-house financing department will work with you to find the best payment option for your needs, and actively help you rebuild your credit--something we have been helping Houstonians do for the past 34 years. If you have any questions or would like more information on how in-house auto financing works, feel free to contact us or visit our showroom today.

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