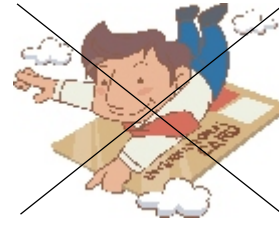


A Brief Introduction to
CONTROLLING YOUR CREDIT

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Introductory Observations

“Our economy is based on credit,”¹ so people must constantly judge one another’s financial character, capacity, and collateral. Credit, the “reputation for solvency and integrity entitling a person to be trusted in buying and borrowing,”² might be thought of as the measure of one’s financial character. Consequently, a critical aspect of financial management is properly managing this reputation. One’s credit, or lack thereof, can have a dramatic impact on his or her life. It affects one’s housing and employment options, as well as the general costs of engaging in commerce. Simply stated, credit is important. It can afford you opportunities to pursue your dreams or hinder you from achieving your goals.

Christians should understand that controlling credit is a matter of faithful stewardship because the scriptures plainly declare that the God whom we serve owns everything (Job 41:11; Ps. 95:4-5; Is. 66:1). “The earth is the Lord’s, and the fulness thereof; the world, and they that dwell therein” (Ps. 24:1). Therefore, the financial and material assets we possess belong to the Lord; they are God’s property, and we will give an account to Him, not only for our use of them, but also for circumstances and conditions under which we acquire them. The latter is oftentimes determined, at least to some degree, by our credit.

Surely, God expects His people to have a good reputation for trustworthiness in financial matters. His word says, “Provide things honest in the sight of all men” (Rom. 12:17), and “A good name is rather to be chosen than great riches, and loving favour rather than silver and gold” (Prov. 22:1). The Lord expects His people to meet their financial obligations in a timely manner, and so do the people who do business with them. After all, “The wicked borroweth, and payeth not again” (Ps. 37:21a). “Better is it that thou shouldest not vow, than that thou shouldest vow and not pay.” (Eccl. 5:5). Christians must be dependable in fulfilling their promises (cf. Mt. 5:34-37). “When we sign the loan or charge account documents, we are promising to make the payment of a certain amount by a certain date. To fail to do so is a breach of promise, a failure to be honest, a lie.”³

¹Federal Reserve Bank of Philadelphia, *What Your Credit Report Says About You*, 2006.

²Joseph Pickett, ed., *The American Heritage Dictionary of the English Language* 4th ed. (Boston, MA: Houghton Mifflin Company, 2000), 428.

³Ronnie A. Missildine, “Do You Pay Your Bills?” *Words of Truth* Vol. 22 No. 39 (September 26, 1986).

I. THE PURPOSE OF CREDIT

Credit allows borrowers to enjoy the benefit of products and services today in exchange for a commitment to pay for them later. In American society, it is rather customary to make purchases using credit. For example, we rarely build our homes from materials that we have purchased with cash. Instead, we borrow money from a lender, who pays a builder or home owner on our behalf, so that we can enjoy the benefit of the home today based upon our agreement to repay the lender over a period of time in the future. The same is typically true with other costly items, including vehicles and college tuition. However, many, if not most, of us also purchase more routine, less expensive products and services on credit (typically using credit cards and lines of credit). Based upon one's reputation for financial integrity for borrowing and paying his debts, he is able to consume things today that he either cannot pay for, or prefers not to pay for, until tomorrow. The ability to procure things on based upon credit keeps our economy moving.

When used properly, credit is an appropriate and powerful tool. For example, consumers often have more legal protection when using a credit card than when using cash or cash equivalents (e.g., debit cards and checking accounts). Moreover, credit card purchases sometimes receive an automatic warranty, and, when a dispute arises with a vendor, lenders may actually advocate for the consumer in resolving the dispute. However, the reality that one's reputation will allow him to consume things today and pay for them tomorrow does not mean that he should develop a practice of doing so.

II. THE PERILS OF CREDIT

There are dangers associated with using credit, and understanding them is essential to using it responsibly. The privilege of enjoying things today on credit can be expensive. Lenders usually charge interest, and, while interest rates can vary widely, the charges can be very costly; a person may pay more for the credit privilege than for the actual product or service that he receives. Truly, “[b]anks love people who carry enormous credit card debt.”⁴ While credit is rather expensive, it is also easy to access, at least until a borrower demonstrates that he or she has poor integrity, and easy to abuse. This is a dangerous combination that leads millions into financial trouble, even financial ruin.

Most adults have little pieces of plastic that allow them to freely spend their future today on services that have no lasting value and products that depreciate as soon as they are purchased. For this cause, credit cards have been called “the bane of personal finance.”⁵ Institutions that issue them are depending upon the lack of patience and discipline that consistently allows people to consume now what they cannot pay for now. The convenience of the cards themselves encourages impulse

⁴Stephen Pollan and Mark Levine, *The Die Broke Complete Book of Money* (New York, NY: Harper Collins, 2000), 183.

⁵Stephen Pollan and Mark Levine, *The Die Broke Complete Book of Money* (New York, NY: Harper Collins, 2000), 183.

buying, “and most of us have more impulses than we can afford to follow.”⁶ With credit cards, in particular, it is all too tempting for people to commit now and think later; it is too easy to forget that each swipe of the card at a register or submission on the internet is an agreement to tender real money in the not too distant future. Soon, too many monthly payments and too much interest leads to an unbearable financial burden.⁷

Another’s willingness to extend credit is not a license to pursue instant gratification and generally live beyond one’s means. “If you’re using credit cards for purchases you can’t afford, you’re on a road that can only lead to financial disaster.”⁸ In order to avoid trouble, unless there is a true emergency, credit should only be used if one is sure to have the money to pay the bills when they arrive. Be honest with yourself; if you do not have the discipline to control your credit purchases and pay the bill entirely each month, put the cards away, and pay cash for everything. If you cannot afford it today, wait until tomorrow. “If thou hast nothing to pay, why should he take away thy bed from under thee?” (Prov. 22:27).

III. PATROLLING YOUR CREDIT

A. Credit report

It is hard to overstate the value of maintaining good credit, particularly during times of financial distress. One can monitor his or her own reputation for integrity by routinely reviewing the credit reports that lenders consult in assessing a borrower’s character, capacity and collateral. A credit report is a “snapshot” that provides information to lenders, employers, insurance companies, and landlords about a person’s fiscal lifestyle. It’s a financial report card that accounts for the person’s payment history with credit cards, mortgages, court judgments, utility bills, and more. The information in these reports is “scored” and significantly affects lender decisions about who they will do business with and the terms upon which they will do business.⁹ Generally speaking, the better a person’s reputation, the better the person’s score. The better the score, the better the lender’s terms will be for doing business with the person.

There are three major credit bureaus in the United States: Experian, Equifax, and TransUnion. Each is required by law to provide you with a free copy of your credit report upon request annually.¹⁰ Moreover, when you are denied credit, you may obtain a copy of the credit report that was consulted by the lender free of charge. Sometimes, there are errors on your report, and it is

⁶Gary Chapman and Jerry Jenkins, *Marriage* (Edison, NJ: Inspirational Press, 2005), 186.

⁷Stephen Pollan and Mark Levine, *The Die Broke Complete Book of Money* (New York, NY: Harper Collins, 2000), 184.

⁸Stephen Pollan and Mark Levine, *The Die Broke Complete Book of Money* (New York, NY: Harper Collins, 2000), 184.

⁹Credit bureaus usually charge a fee to provide your credit score. If you do not know your score, it may be worthwhile to pay the fee. A score above 700 is generally considered good. Credit scores are dependent upon information in your credit report, so it is absolutely critical that the information is accurate.

¹⁰These reports can be requested at www.annualcreditreport.com or 877-322-8228.

important to correct them promptly. Although it can be difficult and time-consuming to get them to do so, the bureaus are legally obligated to correct erroneous information. Negative entries remain on your report for at least seven years; so it is worthwhile to be vigilant in making sure that they are removed, if possible. If late payments are indicated on your reports, check your records; if you believe that the payments were timely made, or that the creditor was at fault somehow, obtain proof and dispute the error immediately. Verify that accounts that have been closed are not listed as open. Cross check the account numbers. Be sure that the personal information (e.g., names, addresses, SSN, etc.) is accurate.

B. Credit repair

Late payments, bankruptcy, collections, court judgments, excessive debt, and credit inquiries by potential lenders negatively impact your report and your score. If you find that there are negative entries on your report or that your credit score is low, there are several steps that you can take to improve your report card. First and foremost, develop a habit of paying your bills on time, particularly those relating to mortgages, credit cards, and other revolving debt, so that you don't receive more negative entries. If you are absolutely unable to pay a bill on time, never pay it more than thirty days after the due date.¹¹ Second, to the extent possible, pay off debt rather than move it around, and keep your balances low; it does not help to pay off an account so that you can immediately "run it up" again. Third, open new credit accounts only as truly needed, and be certain to keep them current.

If your score is low, do not close all your credit accounts because this will likely lower your score; having long-standing accounts that are in good standing raises your score. However, if accounts have not been used for extended periods of time (e.g., three years or more), it is probably best to close them. If you are having difficulty maintaining your current payment schedule, ask the lender whether a lower interest rate is available; you might be surprised to learn that they often are! If a lower rate is not available, ask whether alternative payment arrangements are available. In any event, it is better to pay what you can, even if you are unable to pay the full amount due and owing. If you have many negative marks on your report, it may be advisable to contact a reputable credit counselor.

C. Credit protection

Identify theft is an ever expanding area of crime, not just in the United States, but in the world. Oftentimes, identity thieves abuse their victims' credit. There are certain services that help protect people from identity theft, and others monitor people's credit activity to make it likely that fraudulent activity will be discovered very rapidly. No doubt, such services may be helpful to some and are worthy of investigating. However, there are several practical things you can do to personally protect your credit. Here are a few:

¹¹While the lender may charge a late fee, late payments are not posted to your credit report unless they are made more than 30 days after the due date.

1. Make copies of all the items in your wallet or purse and store the copies in a secure place; if your wallet or purse is lost or stolen, immediately call all credit, banking, health, and insurance companies that might be affected;
2. Carry only what you actually need; don't carry your social security card, birth certificate, and credit cards with you routinely;
3. Do not carry any written pin numbers in your wallet, phone, or planner; thieves will definitely look for the numbers in these places and will use them to harm you if they find them;
4. Write "Ask for ID" on the back of your credit and debit cards; cashiers will almost always ask you (or the bearer) for photo identification when the cards are presented;
5. Use a locking mailbox for incoming mail and take sensitive outgoing mail directly to the post office if your mailbox does not lock;
6. Monitor your trash; it is best to shred old bills, receipts, and sensitive papers before discarding them; identity thieves don't mind rummaging through your trash to get the information they need to harm you;
7. Use a safe or locking file cabinet in your home to secure sensitive papers against access by roommates, handymen, guests, or thieves;
8. Check financial statements carefully each month, and challenge any discrepancies;
9. If you suspect that you've been the victim of identity theft or credit fraud, report your suspicions to the credit bureaus and the FTC Identify Theft Hotline (877-ID-THEFT) promptly.

Concluding Observations

It is not possible, in a brief lesson like this one, to discuss all of the pertinent details about controlling one's credit. Hopefully though, the information that has been presented has been adequate to sensitive you to the importance of credit and using it responsibly. It costs money to have poor credit. Good opportunities are lost because of bad credit. More importantly though, one's credit is a reflection of his or her character. Poor credit is reflective of poor character traits. Therefore, those with Christ-like character should have good credit, or at least ever-improving credit. Everyone, particularly God's people, should invest the effort to better understand practices and precepts that will lead to a good reputation for financial integrity and solvency relative to buying and borrowing. Everyone should pursue good credit.