

Secured Credit Card

Establishing or re-establishing credit can be difficult because lenders are not eager to extend credit to individuals who either don't have a credit history or to people with tarnished credit. The reason is due to the fact that lenders are concerned about the risk of losing money.

One way to prove to the lender that you are a good credit risk is to obtain, and properly use, a secured credit card.

How it Works

You will need some up-front money because the lender will require you to open and maintain a savings account. The purpose of the savings account is to provide the lender with a guarantee, security, that the lender will not lose money if you default on your payments. With this guarantee, money in the bank, the lender will provide you with a credit card that has a credit line in the amount deposited.

Example

You open a savings account with a deposit of \$500. The lender gives you a secured credit card with a credit limit of \$500. The lender is secured by literally having the "money in the bank" if you don't make payments.

How it Can Help

A secured credit card, when properly used, can help you either establish or re-establish credit. As you use the credit card and either pay the balance in-full each month or make timely monthly payments, you demonstrate to the lender that you are trustworthy and financially responsible. Also, you develop a positive payment history, which is reported to credit reporting agencies (credit bureaus). Your payment history will demonstrate that you are a good credit risk when you apply for credit in the future.

Helpful Hints

1. Obtain a credit card from a well-known and reputable lending institution in your local community.

2. Find the lender that offers the best deal by asking questions, such as:

- What is the minimum amount needed for the savings account?
- Is there an application fee? If so, how much?
- Is there an annual fee? If so, how much?
- What is the credit card interest rate?
- Are there other fees? If so, what are they and what are the costs?
- Does the lender pay interest on the money you deposited? If so, what is the interest rate?
- What is the grace period?

A secured credit card benefits both you and the lender. It helps you build credit build good credit and position yourself to apply for unsecured credit. The lender benefits by offering you a secured credit card because the lender receives something of great value, you, a new and valuable customer.