

Credit Reports & Recreational Lending

Why we need them - How we use them - What you should know

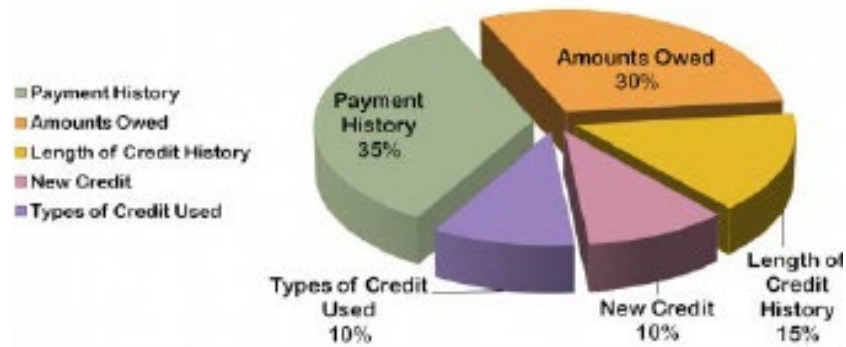
By: Sterling Acceptance Corporation

What is a credit report & how is it used by the banks to decide whether to provide a loan?

A credit report is a summary of information about your credit – including a repayment history and a current status of your accounts. Your credit report will show whether you are making payments on time, how much you have borrowed, and how much available credit is remaining to borrower against. It will also show if there are, or have been, any negative public filings for nonpayment of obligations. The credit report is the Primary source that creditors use to evaluate your repayment history of current and past debts. The credit score that is shown on the report provides a sense of the credit risk and allows a potential creditor to make an educated decision whether to approve your loan request. Therefore, a good credit rating is essential for your financial future.

How is your credit score calculated?

A creditor's initial review of your report reveals your credit score, so you want to make a good first impression. The pie chart below will give you an easy look into the workings of your credit score calculation. As you can see, there are 2 major factors: payment history and amounts owed, but you don't want to discount the importance of the length and type of credit used, as well as any new credit you may have recently obtained. Recreational Lenders typically want to see that you have had prior comparable debt, so a previous recreational loan can work in your favor. If this is your first boat or RV loan, the lender will look to see that you have other high dollar debt, such as a mortgage or other secured loan.



A Recreational Lender's view of credit reports and scores:

Now that you have a base understanding of the actual score, let's talk about how it applies to recreational lending specifically. All lenders use an applicant's credit report to determine risk but there are many differences in how the various factors are weighed, based on the type of credit you are seeking. Here are some guidelines for recreational loans:

- **Score:** Generally speaking, recreational lenders require a minimum score of 670.
- **Past Payment History:** Your credit report will list how many times you have been 30 days late, 60 days late, and 90+ days late. It is one of the most important factors in determining your risk, and whether or not you are likely to repay your debt in a timely manner.
- **Length/Type of Credit History:** Recreational Lenders expect you have at least 60 months of credit history with a minimum of 5 credit lines. They want to see at least 12 months' history on installment and mortgage loans to show credit worthiness.
- **Amounts Owed/Percent of Credit Limit Used:** Current outstanding credit balances and associated monthly payments are used to calculate your monthly debt, which is used then to calculate your debt-to-income ratio. Recreational Lenders generally want to see this ratio below 40% with the new recreational loan payment. You can work this up yourself by adding up all of your monthly debt and dividing that by your monthly income. In addition, having a nice gap between what amount of credit you have used, versus the amount of credit you have been given carries much weight, not only in your score, but in your potential risk determination. Hence, maxing out multiple credit cards, will carry a negative connotation in regards to your credit risk.
- **Recent Credit:** If you have recently obtained a large loan or taken on substantial debt, Recreational Lenders will be less likely to lend you more money without understanding your spending habits. Along with this, Recreational Lenders look at recent inquiries. Excessive inquiries will drop your score, but more importantly, it tends to raise questions about how these inquiries could result in further extensions of credit.

Extra Tips from the "Professionals"

Monitoring your own credit report is very beneficial to your financial future. We highly recommend you review your credit report annually, paying careful attention to the areas mentioned above, and address any discrepancies immediately. When it comes time for you to apply for a recreational loan, you will be well-prepared and ready to answer any questions we may ask regarding your past credit history. Here are some tips to make your loan approval a breeze:

- **Pay bills on time.** This is the most important factor to defining your "risk" as an applicant. It can make or break the way lenders view you as a potential borrower and, ultimately, whether they will lend you money or not.
- **Keep low balances compared to allowed credit limit.** It is favorable to have a high credit limit on your credit cards and lines of credit. HOWEVER, if your outstanding balance is at or near your credit limit, this is very unfavorable. These types of credit can really help your score go up, and quickly, but you should limit usage to below 30% of your credit limit. If you cannot pay the balance in full each, at least always pay on time, and always pay towards the principal balance.
- **No other large purchases around the time you apply.** You should not finance another purchase in the midst of settling on your recreational loan or charge a large amount to your credit cards. The lender may pull your credit again prior to settlement for a last "ok" and this could be detrimental to the deal.

Allowing time between large purchases is recommended. Some Recreational Lenders have concern with an applicant borrowing against multiple large purchases in a short time frame so this may affect their decision to approve your request. It can also lower your credit score, as seen above.

- **Tax Liens or Judgments - Get these paid and settled right away!** If you had one in the past, see if you can get this removed from your report.
- **Get your free credit report from each of the 3 reporting agencies once a year.** The most recommended source to get your credit report is www.annualcreditreport.com It's also a great site to get more information regarding credit.

In Conclusion:

Keep an eye on your credit report, make payments on time, and minimize your balances - these are all key to a successful financial future. Remember your credit report will be attached to you, being a paper trail of your credit worthiness and risk. The professionals at Sterling Acceptance are here to help you anytime! Please contact us if you would like more information regarding credit and recreational lending.