Credit Matters

Be a Smart Credit Consumer

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Be a Smart Credit Consumer

With high interest charges and extra fees, and your first taste of true freedom, credit card debt can easily grow out of control. Credit card use also affects your credit reports and scores, an indicator of how you manage credit. The importance of credit in your life should make preserving it, by protecting your identity, a priority.

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TAKE CHARGE OF CREDIT CARDS

Avoid the credit card debt trap by using this information on a daily basis.

Decide If You're Ready for a Credit Card

You're likely being bombarded with credit card offers, but that doesn't mean you have to get a card. Before applying for a credit card, ask yourself if you really need one. Do you have the self-control to handle a credit card responsibly, and will you be able to pay off your balance in full each month? If you're unable to pay off the balance in full, can you afford interest charges and other fees that may be applied to your account?

Weigh the Advantages and Disadvantages

Consider the consequences — both good and bad — of having a credit card.

- Advantages
  - Credit cards are a convenient way to make purchases.
  - They can come in handy in emergency situations.
  - Handled properly, credit cards can help you establish a positive credit history.
- Disadvantages
  - Credit cards are actually high-interest loans that can take years to pay off if not handled responsibly.
  - If the credit card balance is not paid in full each month, interest charges will be added to the amount actually charged.
  - Misuse of credit cards can damage your credit history for many years.

Every Decision Counts

If you have a credit card, don't use it to support a lifestyle you can't afford. Remember that the decisions you make while in college will impact your life later. Every dollar you borrow now through the use of a credit card must be repaid. Interest and other fees will be added if your full balance is not repaid immediately.

Credit Card Alternatives

Credit cards offer a convenient way to make purchases, but other options are available. Instead of paying with a credit card, consider alternatives that provide immediate payment.

- **Prepaid credit cards** require an upfront deposit to make purchases with the card.
- **ATM/debit cards** offer 24-hour access to money in your bank account through automated teller machines (ATMs) or let you make purchases with money from your bank account.
- **Cash** is always an alternative. Saving for cash purchases instead of using a credit card guarantees you won't pay extra in interest charges or fees.

Be a Smart Consumer

If you feel you're prepared to handle the responsibility of a credit card, do your research and shop around. Find the one that's best for you by comparing several credit cards through your bank, online or from the offers you receive in the mail. Before you decide, study the fine print.

- Look for the **lowest annual percentage rate (APR)**, which is a measurement of the cost of credit, expressed as a yearly interest rate. Credit cards may have different APRs for purchases, cash advances or other transactions. Keep in mind, low introductory APRs may last only a short time before increasing dramatically.
- Some credit cards offer **no or low annual fees** or **benefits for using the card**, such as cash-back rewards or airline miles. Remember, these features are important, but signing up for a credit card to get a free gift or special discount isn't always the best choice.

Success Strategies for Managing Your Credit Cards

Every time you use your credit card, you need to pay back what you charge. Credit cards can be dangerous if not handled responsibly. The strategies on the next two pages will help you manage your credit cards.

Always Pay the Monthly Balance in Full

Each month, you'll receive a billing statement from your credit card company. Although you're only required to make a minimum monthly payment (generally 2% to 4% of your balance) paying your balance in full each month is best.

If you don't pay your bill in full or choose to make only the minimum monthly payment, you'll be charged interest on the remaining balance and it could take a long time to pay off your debt.

The Scenario

You spend: $2,000 and never use the card again
Your interest rate: 19%
Your minimum monthly payment: 4% of your monthly balance, or $10, whichever is greater

Option 1 — Make the **4% minimum monthly payment** ($80 the first month; subsequent payments decrease gradually).

Total Interest Spent	Total Amount Spent	Time to Pay Off Balance
$1,217	$3,217	118 months

Option 2 — Make a **level payment of $100** each month.

Total Interest Spent	Total Amount Spent	Time to Pay Off Balance
$424	$2,424	25 months

If you choose to make the minimum monthly payment instead of a regular level payment, paying off your balance will take an extra **eight years** and **$793** in interest.

Use Your Credit Card Wisely

Credit cards allow you to purchase things now and pay later, but you can easily lose track of how much you've charged. Keep track of how much you owe throughout the month to avoid overspending. Before using your credit card, ask yourself if the purchase is a necessity or if it's something you can live without for now.

Your credit card use may be getting out of control if you:

- Have maxed out one or more credit cards.
- Owe more each month than the previous month.
- Struggle to make your minimum monthly payment.
- Use credit cards to make payments on other cards.

Know Where to Turn for Help

If you become overwhelmed by credit card debt, get help from your family, credit card company or local nonprofit consumer credit counseling agency. To immediately reduce your debt:

- Stop using your credit cards, and don't sign up for any new cards.
- Create a budget and stick to it. Use the monthly budget calculator at **www.ICANsucceed.org/calculators** to get started.
- Call your credit card company to ask if they will lower your interest rate.
- Pay off debt with higher interest rates first. But keep making the minimum payment on any other credit cards or loans.

UNDERSTAND YOUR CREDIT

Credit is money you borrow that you promise to repay. You're granted credit when you borrow money from a lender, generally a bank or credit card company. Lenders use information in your credit history to predict how likely it is that you'll repay your debts in the future. How you handle credit affects not only your financial future but other aspects such as job opportunities, housing options and insurance rates.

Learn About Credit Reports

A credit report is a historical record of how you managed credit in the past. Your credit report is unique to you because it contains information about your personal credit history.

Credit reports are maintained by national credit reporting agencies. The three major agencies are Equifax, Experian and TransUnion; a number of other agencies, such as Innovis, exist. These agencies gather information from lenders, creditors, banks and other businesses and compile the information in a credit report. Each credit reporting agency creates a credit report about you, so you may have many different credit reports. A typical report includes:

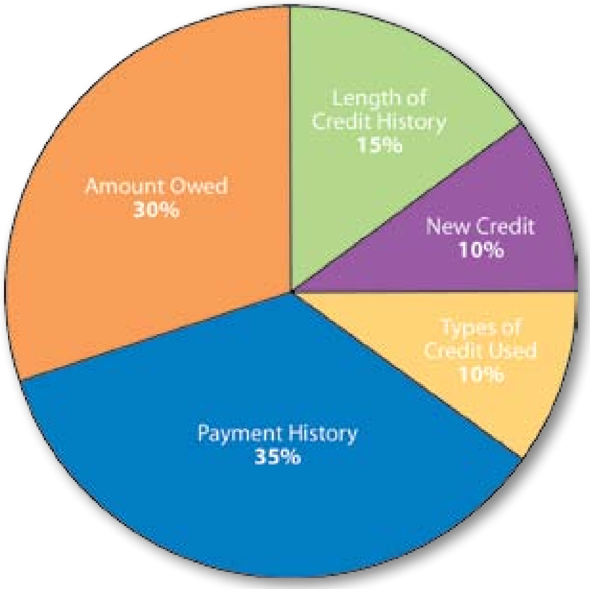
- **Your personal information**, including your name, current and previous addresses, telephone number, Social Security number, date of birth, and places of current and past employment.
- **Your payment information**, including specific information about any student loans, credit cards, car loans or other consumer accounts you have. Inactive accounts are included in your credit report, as well as details about your credit limits, loan amounts, current balances, monthly payments, payment history, late or missed payments, and accounts turned over to collection agencies.
- **A record of inquiries**, which includes all lenders, individuals and businesses that have requested your report within the past one to two years.
- **Public record information**, such as bankruptcies, foreclosures and tax liens.

Understand Credit Scores

Your credit score is a quick and consistent way for a lender to determine your credit risk based on the information in your credit reports. Generally, if you have a good credit history, you'll have a higher credit score and you'll appear less risky to lenders and creditors. Your credit score changes as the information in your credit report changes.

How Credit Scores Are Calculated

- Credit scores are determined by a complex mathematical model that evaluates the information in your credit report. The most widely used credit score is the **FICO®** score, which is calculated by the Fair Isaac Corporation. FICO scores range from **300** to **850**.
- Your FICO score is a calculation based on your rating in five general categories. This chart shows how each category is weighted in the general population.



Information for this chart was obtained from the Fair Isaac Corporation. FICO® is a registered trademark of Fair Isaac Corporation.

Know Why Credit Matters

Your credit history affects the terms and conditions offered to you when you apply for credit cards and loans. Good credit typically means you'll be offered lower interest rates, which will save you money. If you have bad credit, you may have to pay a higher interest rate that can make your purchases cost more than they should. You could even be denied for a credit card or loan.

How Your Credit History Really Affects Your Everyday Life

This chart shows examples of how the interest rate you receive for a car loan can affect your monthly payment and the total amount you might spend on a **five-year, $15,000 loan**.

	Good Credit History	Average Credit History	Bad Credit History
Amount Borrowed	$15,000	$15,000	$15,000
Interest Rate	7.00%	12.00%	18.00%
Monthly Payment	$297	$334	$381
Total Amount Spent	$17,821	$20,020	$22,854

With a bad credit history, you'll receive a higher interest rate and will pay significantly more for your car. Compared to a loan with a 7.00% interest rate, you'll spend **$84 more** each month and **more than $5,000 extra** by the time the car is completely paid for with the 18.00% interest rate loan.

That's $5,000 you could have used to purchase other items or saved for your future. Remember that every blemish in your financial history, as well as every bill paid on time and in full, will affect what you can do in the future.

Build and Maintain a Good Credit Score

Besides paying all your bills on time and paying the full amount due, other strategies to improve your credit history and score include the following:

- Keep balances and credit limits low on credit cards. High outstanding debt and high credit limits can affect your credit score. Try to keep your balance well under 50% of the available credit.
- Don't open new credit cards that you don't need. Opening new accounts can lower your score.
- Limit the number of credit card accounts you have to one or two. With too many open lines of credit, you may look risky to lenders.
- Don't close established accounts that show a longer history of managing credit. Closing old accounts may lower your credit score.
- Remember that closed accounts will remain on your credit report and will be factored into your score for up to seven years.
- Reestablish your credit history if you've had problems in the past. Open new accounts responsibly and pay them off on time to raise your score over time.
- Reduce your debt by making extra payments on your loans and credit cards.

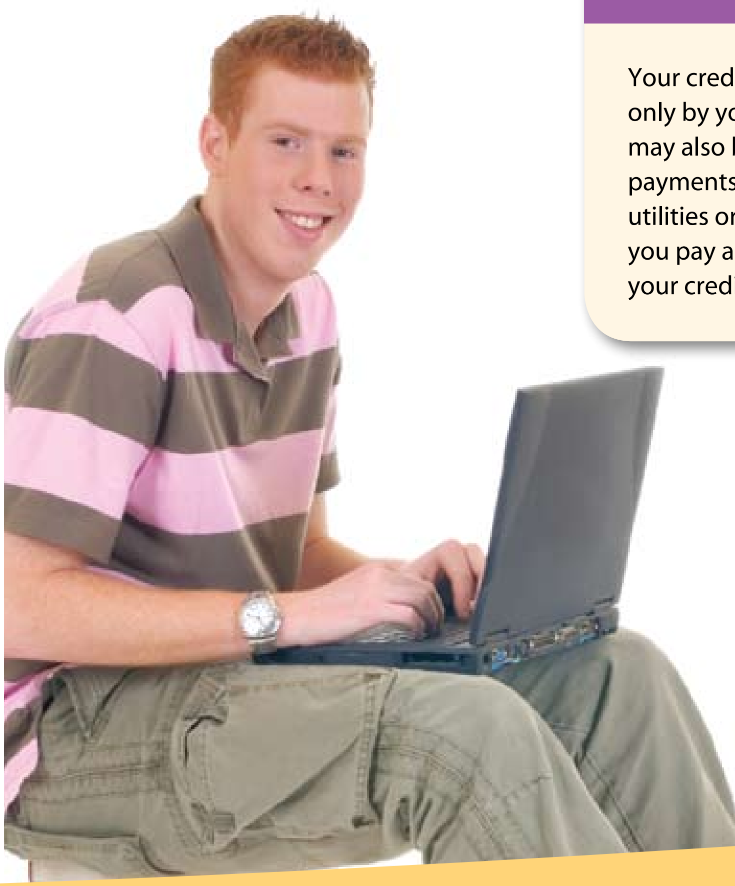
Reduce the Number of Inquiries in Your Credit Report

You can request to have your name excluded from lists for preapproved, unsolicited credit and insurance offers. To opt out, call **(888) 5-OPT-OUT** or go to **www.optoutprescreen.com**.

Understand the Consequences of Bad Credit

Many factors can damage your credit history and make you a higher risk for lenders, insurance companies, employers and landlords. You could:

- Pay higher interest rates on loans and credit cards.
- Pay higher deposits for services.
- Pay higher rates for auto, homeowner's and renter's insurance.
- Miss out on job opportunities.
- Lose housing options.
- Be denied credit completely.



All Your Bills Matter

Your credit history isn't affected only by your use of credit. It may also be impacted by late payments on your cell phone, utilities or other bills. Make sure you pay all your bills on time so your credit isn't damaged.

Review Your Credit Reports

The best way to understand your credit history is to review copies of your credit report from each of the three main credit reporting agencies. You should review your credit reports annually to make certain the information is accurate. You may order all three reports at the same time or at different times during a 12-month period.

Request your reports by phone at **(877) 322-8228** or online at **www.annualcreditreport.com**. This phone number and Web site are the only authorized sources for your free annual credit reports from Equifax, Experian and TransUnion. Other companies offer a similar service but may charge unnecessary fees. Always use caution when giving out personal and financial information.

How to Build a Nontraditional Credit History

If you've never had a credit card or loan, you may have difficulty being approved for your first one. However, you can create a nontraditional history to show lenders that you're responsible when it comes to paying bills. Here's how:

1. Save copies of bills you pay, including rent, cell phone, utilities and insurance, and the canceled checks/records of those payments.
2. Request letters of reference from utility companies and landlords. Ask them to include how long you've been a customer and your payment history.
3. Show your bills, payments and letters to lenders to demonstrate your history of paying bills on time each month.

Correct Errors Immediately

Errors in your credit report could reduce or eliminate your ability to obtain credit in the future. If you find errors, you have the right to correct the inaccurate information through the credit reporting agency that issued your credit report. You should act quickly to have the mistakes corrected.

1. Write a letter to the credit reporting agency and identify each item that you believe is incorrect.
2. Include copies of documents that support your claim. Keep the originals for your records.
3. Send your letter by certified mail so you can document your effort to correspond with the credit reporting agency.
4. Add a personal statement to your credit report explaining why you believe the information is inaccurately reported.

The credit reporting agency must investigate errors within a reasonable period of time, usually 30 days.

PREVENT IDENTITY THEFT

Reviewing your credit reports annually is a great first step toward being alert for identity theft, which is a federal crime that occurs when someone unlawfully uses another individual's personal information. You can do a number of other things to protect your identity.

The Impact of Identity Theft

Identity theft is a serious crime that affects millions of people in the United States each year. Criminals often use the stolen information for financial gain, leaving a devastating impact on the financial history of an identity theft victim. Victims often spend a great deal of time and money to repair the damage and restore their good names.

Don't Become a Victim

Identity theft is one of the fastest-growing crimes in the United States, and knowing how to protect yourself is an important component of your financial future. Safeguarding your personal information is the best way to reduce your risk of becoming a victim.

How Criminals Get Your Information

Criminals can obtain your information in a variety of ways. Though their methods are constantly evolving with new scams and tricks, a few techniques are common:

- **Dumpster diving** — A thief can go through the trash outside your home, work or a place where you do business.
- **Stealing mail** — A thief can steal the mail right out of your mailbox.
- **Personal theft** — A criminal may steal your purse or wallet or even break into your home or car.
- **Insider compromise** — Sometimes a thief works where you do business and has access to your personal data.
- **Hacking** — Information on your work or personal computer can be easily accessed by a thief if the proper protective software has not been installed.
- **Internet scams** — Criminals create fraudulent e-mails and Web sites that trick you into giving out your user names, passwords and other personal information. The e-mails and Web sites may appear to be from a legitimate bank or company.
- **Phone scams** — Criminals may also contact you by telephone and try to trick you into giving out your personal information.

What Criminals Do with Your Information

According to the Federal Trade Commission, criminals most commonly use a stolen identity to open new credit cards in the victim's name. The damage they can do is not limited, though. Criminals may also use your information to:

- Run up charges on existing credit cards.
- Authorize electronic funds transfers from bank or retirement accounts.
- Acquire new loans in your name.
- Open new bank accounts in your name.
- Obtain a driver's license or passport with your name and their picture.
- Sell your information to other criminals.

DEFENSE STRATEGY #1

Protect Yourself

Safeguarding your information is the best way to prevent criminals from misusing your identity. You can dramatically reduce your chances of becoming a victim of identity theft by:

- **Securing your incoming and outgoing mail.** Use a locking mailbox and be sure to remove incoming mail promptly. When sending mail, put it in an official postal mailbox rather than leaving it in your home mailbox.
- **Keeping your personal information safe.** Cross-shred documents and mail with your personal information before throwing them away. Do not carry your Social Security card or birth certificate in your wallet or purse.
- **Safeguarding your methods of payment.** Never share your bank account or credit card information with anyone. Limit the number of credit cards and debit cards you carry.
- **Protecting your computers.** Get virus protection and Internet security software for your personal and work computers. Be cautious when responding to e-mails or giving out personal information online.
- **Registering with the Federal Trade Commission** National Do Not Call Registry by calling **(888) 382-1222** or going to **www.donotcall.gov**.

Reduce Your Risk

Monitor your accounts and credit history regularly to help minimize damage if a criminal does steal your identity. Catching identity theft early means you'll spend less time and money fixing the damage.

Be alert for suspicious activity by **monitoring your accounts and credit history** for unusual or unfamiliar transactions.

- Check your credit card and bank account activity at least once a week.
- Review your paper bank account and credit card statements each month.
- Review your free credit reports annually.

DEFENSE STRATEGY #2

Know the Warning Signs

Some common warning signs or suspicious activities may indicate you're an identity theft victim. Be alert if:

- You notice charges to or withdrawals from your accounts that look unusual or unfamiliar.
- You receive phone calls from credit card companies, banks or collection agencies demanding payment on accounts you did not open.
- You stop receiving your regular mail.
- You apply for a credit card or loan and are denied due to bad credit even though you're confident that you have a good credit history.
- You did not apply for a credit card that you receive in the mail.

DEFENSE STRATEGY #3

Take Action If You Become a Victim

If you suspect you're a victim of identity theft, take action right away. The amount of fraudulent charges you may be responsible for paying relies in part on how long you wait to report the fraud. You may be responsible for only $50 per account if you discover the fraud and report it within two days. If you become a victim, take these steps:

1. File a report with your **local police department** and get a copy of the report. You'll probably need to provide a copy to your banks and credit card companies as well as the credit reporting agencies.
2. Contact your **bank** and let them know you suspect identity theft. Ask the bank to notify the check verification services too.
3. Contact your **credit card companies** to inform them that you suspect you're an identity theft victim.
4. Contact **credit reporting agencies** to place a 90-day fraud alert and victim statement in your credit file. After 90 days, you must contact the agencies again if you want a seven-year alert placed in your credit file.
5. Order copies of your **credit report** from each of the national credit reporting agencies.
6. File a complaint with the **Federal Trade Commission**. Make sure you fill out an Identity Theft Affidavit and mail it to your banks and credit card companies.
7. Call the **Social Security Administration** if you suspect that your Social Security number is being misused.

Important Resources

Equifax Credit Bureau, Fraud Hotline
(888) 525-6285
www.equifax.com

Experian Credit Bureau, Fraud Hotline
(888) 397-3742
www.experian.com

TransUnion Credit Bureau, Fraud Hotline
(800) 680-7289
www.transunion.com

Federal Trade Commission, Identity Theft Hotline
(877) 438-4338
www.ftc.gov

Social Security Administration, Fraud Hotline
(800) 269-0271
www.ssa.gov

Glossary of Common Credit Card Terms

Make sure you understand the important terms in the fine print of your credit card agreement. Below are some of the more common terms with general definitions.

Annual fee — An annual fee may be charged simply for having the card, depending on your credit card company.

Balance-transfer fees — These fees may be charged when you transfer a balance from one credit card to another. You may be charged a balance transfer fee from the original card and the new card.

Cash advance fees — These fees are charged when you obtain cash from the ATM by using your credit card. This will usually cost you an additional finance charge of 3% to 5%. The fee may be a flat fee or a percentage of the cash advance.

Credit limit — Your credit limit, or credit line, is the total amount you can charge on your credit card, including purchases, cash advances, balance transfers, fees and finance charges. You may request an increase or decrease in the amount of available credit you have. Your credit card company may charge a fee for complying with this request.

Grace period — Your grace period is the set amount of time, usually 15 to 30 days, during which you can make a payment without incurring finance charges.

Late-payment fees — Late-payment fees are charged if your payment is received after the due date or if you don't make a payment at all. Some companies have a set fee, such as $20 or $30, while others may charge you a percentage of your minimum payment. Making late payments will almost always cause the credit card company to increase your interest rate.

Over-the-limit fees — These fees may be charged if you exceed your credit limit. Some companies will charge you a one-time fee, while others charge the fee each time you make a purchase over your limit. The fee is usually $20, $30 or a percentage of the amount you've overcharged.

Other fees — You can be charged other fees depending on your credit card agreement. This may include fees for opening a new account, paying your bill by telephone or paying your bill with a check that is returned for non-sufficient funds.

Notes

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