

Credit 101

**Your introductory course
to the responsible use of credit.**

Familiarize yourself with this course material, print it if you prefer.
When you're done, take the Credit 101 Quiz on communityfirstcu.com

*This is a recommended course if you are applying for a Student Credit Card with Community First.
Your score on this quiz does not affect your credit eligibility.*



Course Outline

- Reasons for having/needing credit cards and credit
- Advantages and disadvantages
- Costs associated with credit cards
- Warning signs of too much debt
- How to build a good credit history
- How to avoid credit card fraud
- Understanding your credit report and credit score.



Reasons for having credit and credit cards.



In today's world, credit does indeed matter. In fact, obtaining and using different types of credit instruments is part of almost every American's financial life. However, because it is so easy to make expensive mistakes that can follow you for a long time, it is a good idea to learn how to borrow wisely from the beginning.

What is credit?

In the broadest sense, credit means having the use of something before you pay for it. It adds flexibility to planning and makes it possible to pay for expensive items over a period of time. Credit comes in many different forms including car loans, mortgages and credit cards.

Why have credit?

Credit has become increasingly important in today's world. It can impact everything from your ability to borrow money at the best rates, to employment decisions and insurance premiums to your ability to rent housing. As a measurable reflection of your responsibility and reliability, building strong credit can have hidden benefits or hold you back in many different aspects of your life.

Advantages & Disadvantages

A key component of credit, Credit Cards have many **advantages** including:

- Allowing you to establish a payment history which in turn becomes part of your credit history and credit score.
- Making it possible for you to rent a hotel room or car.
- Providing access to funds in the event of an emergency.
- Convenience.
 - You can buy now and pay later.
 - Accepted at most retail stores.
 - You can carry less cash.
 - No need to show identification or provide personal information.
 - Monthly statement provides record of purchases.
 - Can be an interest-free loan if you pay in full when bill is due.
 - Many have rewards programs offering the ability to accumulate points and redeem them for a variety of rewards including travel, gifts and more.

They also have **disadvantages** to consider:

- Can be costly if you carry a balance and incur finance charges.
- Your future income is committed to paying on your credit card balances, may infringe upon income needed for necessities.
- Discourages comparison shopping and makes impulse purchases and overspending easier.
- You may no longer be using an item purchased on credit, but are still paying on it.
- Perks, like reward points, can persuade you to overspend.

The Costs of Credit.

Know them and how to avoid them.



Credit Costs

There are costs beyond the items you purchase on a credit card. When considering a credit card, look for the following costs to help you make the best decision.

- **Annual Percentage Rate (APR)** –The APR is the annual rate of interest charged on an outstanding balance. Grace periods determine when interest begins accruing.
- **Annual fee**
- **Over limit fee** – If you exceed your credit limit, you will be assessed an over limit fee.
- **Balance-Transfer Fee** – assessed for transferring balances from one credit card to another.
- **Cash Advance fee** – These can include interest that begins accruing immediately as well as a fee just for accessing the Cash Advance.
- **Late fee** – Virtually every credit issuer will charge a late fee if you do not pay by the due date.
- **Miscellaneous fees** – Some issuers charge for a variety of other activities, such as issuing a replacement card, not carrying a balance, having an inactive account, or for carrying a balance under a certain sum. The better your credit history is, the less you have to accept such expensive terms.

Tips to Avoid Credit Card Fees

- Ask your card issuer for a due date that's easy to remember – for example close to payday.
- **Make on-time payments.** Mail your payment several days in advance of the due date or use your financial institution's bill-pay service to schedule your payments in advance and have a guarantee they'll be made.
- **Read all disclosures** prior to taking a card offer.
- **Don't exceed your limit!!!** Many creditors will allow you to exceed your limit when making purchases, but will assess fees for doing so. Know your balance and know your limit!
- **Beware of shrinking grace periods.**
- **Universal Default Clause.** If you default on any bill, some credit card companies will raise your interest rate.
- **Avoid the minimum payment trap.** Interest adds up quickly when you only pay the minimum payment on your credit card. Look at the chart below to see how long it will take to pay-off debt with only minimum payments as well as how much interest you will pay over that time frame.



If you only make minimum payments on the debt:			
Amount Owed	Pay-Off Period	Interest Costs	Actual Cost
\$1,800	22 Years	\$3,800	\$5,600
\$3,900	35 Years	\$10,100	\$14,000



Despite all the advantages and conveniences credit can provide, there are some problems associated with credit use. Interest rates and fees can dramatically increase the cost of a purchase made on credit, and generous credit lines make overspending easy. When used correctly, credit can be an excellent tool, and it's the only way to build a positive credit history – which will help you get what you want in the future at the lowest financing.

Wise Use – and Misuse

There are many appropriate uses for credit cards. They are convenient payment tools, particularly for expensive items. Because you receive detailed account statements, credit cards are also a way to track spending. With some cards you can even accumulate points for rewards such as airline tickets, cash back rewards, and discounted merchandise. In fact, credit cards are sometimes the only way to get what you need, such as booking hotel rooms, buying airplane tickets, making online purchases, and renting a car.

Use Credit Wisely

- Only charge the amount you can afford to repay when the bill comes due.
- Always pay on time.
- Have just the right amount of available credit for your needs.
- Have and use a variety credit instruments – credit cards, loans, charge cards, etc.
- Only apply for the credit you need.
- If you have debt now, repay it as quickly as possible.
- Avoid expensive, high penalty loans that that can work against you.

Choose credit carefully

Not all credit offers are created equal. There are some loans on the market today that are especially costly for consumers. Avoid these types of expensive credit.

- **Payday loans** – This is a way to borrow from your future income. With average annual interest rates ranging from 390 to 871 percent, payday loans are no bargain.
- **Car Title Loans** – Car title loans are promoted as small emergency loans but because the interest rates are often in the triple digits, repayment is difficult and expensive and it is possible to lose your vehicle if you can't meet the payments.
- **High-cost credit cards** – Some credit cards are so fee-heavy that they make no sense for borrowers.

Warning Signs of Excessive Credit Use



Recognize Warning Signs

The trouble begins when credit cards are misused. Never confuse a credit line as “extra cash.” It is not a bonus for vacations or money for emergencies (that is what savings is for). Most importantly, it is not additional income to get you through a shortfall until the next month. Using it that way may help temporarily, but it will make the next month more stressful when the same cash flow problems arise – but with more debt to pay.

Watch for these warning signs that you may be accumulating too much debt:

- You are only able to make the minimum payments on your credit cards
- You are at or near your credit limit
- You don't know the amount you owe on all of your debts
- You use cash advances to pay other bills
- You have been denied credit or your credit card has been denied for a purchase
- You are receiving calls from creditors or collection agencies
- You lie to your spouse/significant other/parents about your spending
- Your total credit card outstanding balances exceed 20% of your total annual gross household income.

Credit Rules to Live By

Many of these warning signs can be avoided by following these simple rules of credit. It will take 6-12 months to establish a satisfactory payment history pattern.

- Pay all of your bills on time. Some utility companies report to the credit agencies.
- Open a checking account and don't bounce checks.
- Establish credit in your own name.
 - Obtain a small loan from the credit union and pay it back promptly.
 - Just starting out? Get a Student Card with Community First Credit Union
 - Have a “mix” of credit over time (credit cards, mortgage, installment loans [like car loans].)
- Once you have a credit card, charge something on it and pay it back promptly.
- Limit the number of open lines of credit you have.
- Have a written spending plan for all of your expenses, cash and credit.
- Track your spending, know where your money goes each month.
- Live within your means, just because you have access to credit doesn't mean you have to use it.
- Have an adequate emergency fund to prevent you from using credit cards or cash advances.
- Know how much of your spendable income is safe to spend on credit.

Choosing a Credit Card



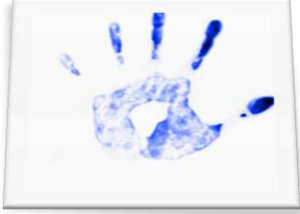
Which type of card is best for you?

- **Revolver.** If you always carry a balance, a card with a low interest rate will reduce your expenses.
- **Non-Revolver.** If you never carry a balance, choose a card with a grace period and no annual fee. Because you'll pay it off before interest accrues, the interest rate is less important.

Shopping for your Credit Card

- **Compare rates and terms and understand all of the fees.** Read the fine print.
- **Beware of low introductory rates on transferred balances.** Is the rate for a few months or the life of the balance? Often payments will be applied to the lower interest rate balances first, lengthening the amount of time higher rate balances exist.
- **Don't wait for offers.** Call issuers and ask about terms and conditions.
- **Watch for excessive universal default rates.** A default rate is if you don't pay any of your bills on time, some credit card companies will raise your interest rate and monthly payment on your credit card.

Credit Card Fraud Avoiding & Preventing It



Identity theft occurs when someone uses your name, Social Security number, credit card number, or other identifying data to commit fraud or other crimes. It may involve stealing your information from a computer, the US postal system, telephone or other wireless communication devices, or directly from a financial institution or other business.

Prevention tips.

- **Protect your PIN and Account Numbers.**
- **Shred Receipts** when they are no longer needed.
- When using your card online, **choose only trusted, secure sites.**
- **Keep a record** of your card numbers and phone numbers to cancel them in a safe, accessible place.
- **Never respond** to emails, online or telephone requests for personal information – this is phishing!
- **Check your statements** each month for accuracy to ensure there are not fraudulent charges or transactions.
- **Check your credit history** every 6 months to ensure accuracy.

Your Credit Card is Stolen – What's your liability?

- If you report the loss before a thief uses it, your liability is zero – **call immediately!**
- Your maximum liability is \$50, per card.
- Keep phone numbers to report a loss in a safe place, not in your wallet!

What's in a Credit Report?



Credit reports are full of coded information that can be quite confusing. If you read through your report line by line, and use the key provided, you will get a good understanding of what is being reported about you.

What's in a credit report?

- Identifying Information about you. Your name, social security number, birth date, marital status & address.
- Employment information
- Creditors and payment history – both positive and negative.
- Bankruptcies, judgments, liens and lawsuits
- Inquiries on your credit – those you initiated, those initiated by creditors with whom you have applied.

What's a FICO Score?

FICO is an acronym for the “Fair Isaac Corporation”, a research firm that developed the credit score system. Your credit history is assigned a number from 300-850 that ranks your lending risk. The higher your number is, the better your credit rating. Credit scores ignore personal information and focus on credit behaviors. Your credit scores constantly changes with credit activity, and recent events matter more than what happened long ago.

What can hurt your FICO Score?

If you are not careful, you can hurt your FICO Score with late bill payments or not paying your bills at all. Using all your credit in a short period of time can also be dangerous to your FICO Score. Here's an example, you open a credit card with a \$1,000 limit and you use \$900 immediately. Your available credit amount is \$100. If your balance on your card stays higher than your available credit, you could damage your FICO Score.

Another danger to your FICO Score is opening too many new accounts in a short period of time. Make sure you allow time to show how well you managed your first accounts before you open additional credit cards. Finally, for a higher FICO Score, you should always avoid payday lenders or “buy here, pay here” auto lenders. If you need additional loans, your best option is to work with a financial you trust.

Who might look at your credit report?

Your credit report can be of interest to many different groups of people including lenders, landlords, insurance companies and potential employers.

How long does information stay on your credit report?

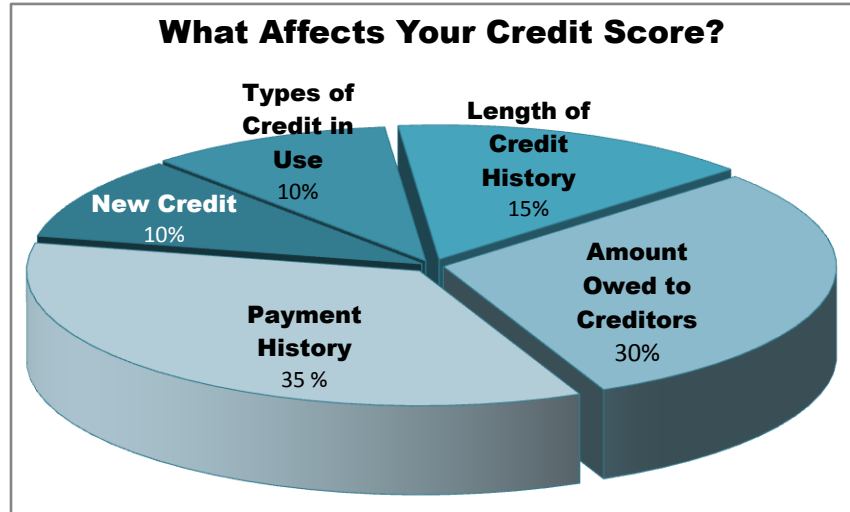
Your credit history begins with your first loan or credit card and builds from there recording the good and bad.

- Positive information can remain forever
- Negative information can remain up to seven years – from the time you take care of it.
- Bankruptcies can remain seven to 10 years.



Learn more about your credit report.

- You may receive one free credit report from each of the three national credit bureaus each year. Visit www.annualcreditreport.com. A good strategy is to pull one from each of the three credit bureaus every four months instead of all three at once so you can monitor your report more closely.
- The three national credit bureaus include
 - Trans Union – Empirica
 - Experian – FICO
 - Equifax - Beacon
- Free credit reports do not include your credit score. You can pay to receive it by visiting www.myfico.com.



Rebuilding Bad Credit

What if you can't make your bills each month?

- Don't ignore creditors. Call them to work out a repayment plan. Showing a good faith effort can benefit you.
- Stop using credit cards. Don't add new debt.
- Call your credit union for advice.

If your scores and credit standing are not where you want them to be, don't worry – you can change them. While it is not possible to remove accurate negative information before the time it drops off the report, you can make improvements by using credit responsibly from this point forward.

Steps to Improve Your Credit Rating

- **Review your Credit Report.** Check your credit report for accuracy, report any inaccuracies.
- **Make timely payments.** A commitment to making timely payments is one of the most powerful steps you can take to improve your credit rating.
- **Consolidate debts.**
- **Seek credit counseling.** Call Community First for advice and referral.
- **Reduce unwanted credit card solicitations.** (www.optoutprescreen.com or call 888-5-opt-out)

