

LIFEGUIDE SERIES

GET CREDITWISE



THE USAA EDUCATIONAL FOUNDATION<sup>SM</sup>  
*Good Information for Good Decisions.<sup>SM</sup>*

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*October, 2006*

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## Credit Matters

Credit is an important financial tool. It lets you pay for items you could not afford with cash, such as a college education, a new vehicle, apartment furniture or a home.

You also typically need a credit card to make purchases online, rent a vehicle and reserve airline tickets.

However, credit can get out of hand if you are not careful. Poor

spending decisions now can damage your credit reputation for years ahead.

Working to build good credit takes time, but it is worth the effort. This publication includes information and tips to help you:

- Get started with credit.
- Use credit to improve your financial reputation.
- Monitor and protect your credit report and score.

When you learn to use credit wisely, you can avoid credit problems and build a strong financial future.

### You Need Good Credit

Every time you use credit, you are building a financial reputation — summarized in a credit report — that employers, landlords, future lenders and other businesses consider as they make decisions about you. Having good credit means you have a reputation for paying bills on time.



*Poor spending decisions now can damage your credit reputation for years ahead.*

Good Credit Can Help You:	Poor Credit Can Keep You From:
<ul style="list-style-type: none"> <li>● Get the job you want.</li> <li>● Obtain affordable insurance for your vehicle or home.</li> <li>● Obtain lower-interest loans.</li> <li>● Receive job-related security clearances.</li> <li>● Rent an apartment or home.</li> <li>● Purchase a vehicle or home.</li> </ul>	<ul style="list-style-type: none"> <li>● Being hired.</li> <li>● Qualifying for insurance or obtaining affordable insurance.</li> <li>● Securing a loan for large purchases.</li> <li>● Getting an approved background check by your employer or for the military.</li> <li>● Having the apartment or home of your choice.</li> <li>● Qualifying for an auto loan or home mortgage.</li> </ul>

**Keep In Mind**

Credit is borrowing: using someone else’s money to buy something now with a promise to pay for it later. Using credit costs money. You have to pay the principal (the amount you borrowed), plus interest and sometimes fees.

When credit is used, there is a creditor (the person, bank, store or company that is owed money) and a debtor (the person who has to pay it).

Your credit reputation generally determines how much money you are able to borrow and how much it costs to do so.

**More Than Credit**

The way you handle money affects more than your credit reputation. Your spending and saving choices can increase financial opportunities or cause financial strain that may affect personal relationships, physical health, and school or job performance.

# Establishing Credit

Establish good credit one step at a time. To avoid debt, do not apply for credit cards or a bank loan until you know you can handle the basics of saving by following a budget and paying bills on time.

## Open A Bank Account

Even though your credit history does not reflect account activity, credit applications often request bank account numbers. Maintaining active checking and savings accounts with no checks returned for insufficient funds will show you manage money responsibly and are disciplined enough to save.

## Use A Debit Card

After you have proven your ability to manage checking and savings accounts responsibly, add a debit card. While it does not establish credit, using a debit card can help you practice responsible spending without risking debt:

- Each transaction subtracts money directly from your checking account.
- You cannot buy something if your available balance is less than the purchase amount.
- There are no interest or late-payment charges, but other fees may apply.

## For More Information

The USAA Educational Foundation publication *Get MoneyWise* provides more information. See “Research Hints” on the inside back cover of this publication to order a free copy.

### Younger Than 18?

To get a head start on establishing good credit, open a joint savings and checking account with a parent or guardian before you turn 18. This will help you begin building your credit reputation.

Make sure you use these responsibly because your actions will also be reflected on your parent’s credit report.

### To Choose A Bank:

- Identify several banks with strong reputations.
- Gather information about them.
- Compare their services and fees.
- Look for conveniences such as ATM, debit and electronic banking services.
- Choose the bank that best suits your needs.

Do not choose a bank just because it offers gifts, vouchers or cash rewards for new accounts.

## Consider A Secured Card

If you do not qualify for a credit card, consider a secured card backed by your savings account. The credit limit is usually low, and interest is calculated just as it would be for a regular credit card. Ask about associated fees and avoid cards that charge processing or application fees. Use it carefully, keeping the balance low. Make payments promptly to establish your creditworthiness.

## Get A Credit Card

When you are ready, apply for a major credit card. Before you apply:

- Shop for a card with no annual fee and low interest rates.
- Use caution with cards that offer low introductory rates. After a few months, the rate goes up — often higher than cards with no introductory rate.
- Take time to understand the card’s terms, conditions and fees, making sure you can meet the requirements.
- Do not apply for more than one credit card at a time. Each request appears on your credit report and lowers your chances of being approved.

If you do not qualify for a bank credit card, apply for a department store charge card, which is easier to obtain. Use it in moderation until you have established a good payment record. Then apply for a bank credit card and formally close the department store card account with the merchant.

When you receive a major credit card, keep the balance low, and pay your balance in full each month to keep improving your credit reputation. If you are unable to pay your entire balance at once, stop using your card until it is paid in full.

See the “Using Credit Wisely” section of this publication for more information on responsible credit use.

Self Test #1	True	False
1. Credit is free money for your use.	<input type="checkbox"/>	<input type="checkbox"/>
2. Debit card use helps establish credit.	<input type="checkbox"/>	<input type="checkbox"/>
3. You do not have to pay interest with a secured credit card.	<input type="checkbox"/>	<input type="checkbox"/>
4. You should not apply for more than one credit card at a time.	<input type="checkbox"/>	<input type="checkbox"/>

*Answers on page 11.*

## Using Credit Wisely

Being credit-wise means using credit responsibly as part of an overall saving and spending plan, called a budget. Unfortunately, many individuals end up deep in debt, even facing bankruptcy, because they use credit to spend more money than they can repay each month. The following example shows how interest compounds when you only pay the minimum amount on your balance.

Credit Card Debt Multiplier				
\$3,000 Balance	Interest Rate	Time to Pay Off	Total Interest	Total Cost
Pay Minimum (2.5% of Balance)	18%	21 yrs. 11 mos.	\$4,115	\$7,115
	11%	14 yrs. 9 mos.	\$1,606	\$4,606
Pay \$100/mo.	18%	3 yrs. 5 mos.	\$1,015	\$4,015
	11%	3 yrs.	\$ 524	\$3,524

### Stick To A Budget

If you follow it, a budget puts you in control of your money. It is a tool for knowing where your money comes from (income) and planning where it goes (saving and spending). To avoid spending more than you have, create a personal budget, and stick to it. The USAA Educational Foundation publications, *Get MoneyWise* and *Making Money Work For You*, can help. See “Research Hints” on the inside back cover of this publication to order free copies.

### Be A Smart Spender

Before purchasing something with credit, ask:

- Do I really need this?
- Is it in my budget?
- Should I just pay cash to buy this?
- Can I afford to pay for this when the credit card bill is due?

### Understand Credit Terms

Make sure you understand the following credit-related terminology:

- **Annual percentage rate (APR).** The rate of interest (expressed as a percentage such as 8.75 percent) charged for a loan over a year’s time. The APR includes interest, transaction fees and service fees.

- **Cash advances** allow you to borrow cash, up to a certain dollar limit or up to a percentage of your credit limit. The APR for cash advances is usually higher than for purchases, and other fees may apply.
- **Credit limit** is the maximum amount — including purchases, cash advances, balance transfers, fees and finance charges — you may spend using a credit card,

based on the credit issuer's opinion of your ability to repay debt. If you exceed this amount, you may have to pay an over-the-limit fee.

- **Finance charge** is the cost of borrowing money on credit. You incur a finance charge when you do not pay a credit card balance in full within a single payment period.
- **Grace period** is the time from the date a credit card

bill is calculated until the bill's due date, generally 20 to 30 days. If you pay the previous balance in full and on time, you owe no interest or finance charges on purchases made during the grace period.

- **Interest** is the cost of using money with a loan or credit card, expressed as a percentage of the amount you borrow. For example, you might pay 7.5 percent interest annually on a mortgage loan, and 1.2 percent interest monthly on the unpaid balance of your credit card purchases.
- **Late fee** is a charge for not making your payment on time.
- **Minimum payment** is the lowest amount you are required to pay your lender each month. With credit cards, it is usually 2 percent to 4 percent of your balance.
- **Previous balance** is the amount not paid by the previous bill's due date.

*You incur a finance charge when you do not pay a credit card balance in full within a single payment period.*



## Safe Credit Use

When you have a credit card or loan:

- Think ahead. Decide exactly how you will use credit.
  - Do not spend more than you can repay each month.
  - Pay bills on time and in full. Never skip a payment.
  - Pay as much as you can if you cannot afford the entire balance. Avoid paying only the minimum due.
  - Limit the number of credit cards you own. You probably do not need more than two.
- Refuse offers to increase your credit limit.
  - Keep copies of sales slips and compare charges when your monthly statements arrive. Call your company immediately if you see a discrepancy.
  - Never lend your credit card to friends.
  - Keep your credit card number in a safe place. If your card is lost or stolen, report it immediately to the issuer of the card.

Use credit for:	Do not use credit for:
Items that appreciate in value (a home or home improvements).	Depreciating goods and services (vacations, dining out, clothing or holiday gifts).
Items that provide income (a college education).	<b>Exception:</b> When you can afford to pay these charges in full upon receiving your statement.
Items that have value longer than it takes to pay for them (a vehicle or furniture).	

### Self Test #2

Fill in the blank.

1. A saving and spending plan is called a \_\_\_\_\_.
2. Avoid charging more than you can \_\_\_\_\_ each month.
3. Use credit for items that \_\_\_\_\_ in value or provide \_\_\_\_\_.
4. It is best to pay credit card bills on \_\_\_\_\_ and in \_\_\_\_\_.

Answers on page 11.

## Monitoring Your Credit

Because your credit reputation affects your ability to obtain loans and even find employment, you should monitor it carefully.

### Your Credit Report

As you establish credit, you are also building a report of creditors' experience with you as a

borrower. This report is what future lenders, employers, landlords and other businesses review during the application process.

Your credit report is a month-by-month record of your payment history with financial institutions and credit card issuers (companies that grant credit). It shows how much credit you are using and how well you pay your debts.

### Your Credit Score

There is also a numerical summary of your credit report — a three-digit credit score. A commonly used credit score is calculated by the Fair Isaac Corporation credit-scoring system (FICO®). It takes into account:

- Your payment history (35 percent).
- How much you owe (30 percent).
- The length of time you have had credit (15 percent).
- Amount of new credit you have (10 percent).
- Types of credit used (10 percent).



*Do not spend more than you can repay each month.*

## Obtain Your Credit Report And Score

You can request a free credit report annually from each of the three major national credit reporting agencies. These agencies also sell various financial products and services. However, you do not have to purchase them.

You are entitled to additional free credit reports if you are a victim of identity theft, have been denied credit, receive welfare benefits or are unemployed. Be sure to request your credit score(s), as well, for a small fee.

To  
Order  
Credit  
Scores

- Equifax  
(800) 685-1111  
www.equifax.com
- Experian  
(888) 397-3742  
www.experian.com
- TransUnion  
(877) 322-8228  
www.transunion.com

*Note: You should check your credit report each year for accuracy and to ensure you are not a victim of identity theft.*

A Score:	Indicates:
Above 650	A good credit history. It will be easier to obtain credit quickly and at a lower interest rate.
Between 620–650	Basically good credit. Large loan or high credit limits may take longer or be more difficult to obtain.
Below 620	A credit risk. Credit may still be available, but at higher interest rates.

FICO® scores range from 300–850. The higher your score, the better.

Self Test #3	True	False
1. My credit reputation can affect my ability to find employment.	<input type="checkbox"/>	<input type="checkbox"/>
2. I am entitled to one free credit report each year.	<input type="checkbox"/>	<input type="checkbox"/>
3. My credit is partially based on how much I owe.	<input type="checkbox"/>	<input type="checkbox"/>
4. It is not important to check my credit report.	<input type="checkbox"/>	<input type="checkbox"/>

Answers on page 11.

# Making Credit Count

If you want to practice good credit habits, remember these important points.

## Establish Good Credit

- Every time you use credit you are building your financial reputation.
- Maintain active checking and savings accounts with no checks returned for insufficient funds.
- Use a debit card to practice responsible spending.
- Use your personal checking account to pay bills on time.
- Apply for a major credit card when you are ready to use one responsibly.

## Use Credit Wisely

- Create a budget and stick to it.
- Do not charge more than you can afford to pay in full each month.
- Pay bills on time. Never skip a payment.
- Compare sales slips to your statement balance each month.
- If your card is lost or stolen, report it immediately.

## Monitor Your Credit

- Review your free credit report and credit score annually.
- Review your credit report for inaccuracies or suspicious activity.

## Remember The Consequences

Using credit is a privilege and a responsibility. Remember that credit is borrowing, so do not get carried away with the opportunity to purchase items you cannot afford on your own.

Used irresponsibly, credit can end up costing thousands of dollars and damaging your financial reputation for years ahead.

Used wisely, credit can help you obtain a school loan, new vehicle or home while building a secure financial base for the future.

## Answers To Self Tests

### Self Test #1

1. Credit is free money for your use.	False
2. Debit card use helps establish credit.	False
3. You do not have to pay interest with a secured credit card.	False
4. You should not apply for more than one credit card at a time.	True

### Self Test #2

1. A saving and spending plan is called a <b>budget</b> .
2. Avoid charging more than you can <b>repay</b> each month.
3. Use credit for items that <b>appreciate</b> in value or provide <b>income</b> .
4. It is best to pay credit card bills on <b>time</b> and in <b>full</b> .

### Self Test #3

1. My credit reputation can affect my ability to find employment.	True
2. I am entitled to one free credit report each year.	True
3. My credit is partially based on how much I owe.	True
4. It is not important to check my credit report.	False



## Research Hints

There is a wealth of information on this topic that can be further researched at your local or college library, or on the Internet.

The Internet is a wonderful research tool where you can find sites that provide general information, related links and resources that can help you in your search. Log onto a search engine and type in keywords of the subject matter that you are researching.

If you explore the numerous sites on the Internet, you should be able to strengthen your research and find information that will fit this subject. The USAA Educational Foundation has not reviewed and cannot guarantee the accuracy of any other Internet Web sites.

### Tip

When researching on the Web, make sure that your source is a reliable and known entity.

The USAA Educational Foundation offers the following related publications:

*Managing Credit And Debt* (#501)

*Get MoneyWise* (#504)

*Personal Records* (#506)

*Financial Planning And Goal Setting* (#511)

*Financing College* (#513)

*Identity Theft* (#520)

*Choosing A Healthy Lifestyle* (#546)

*Keeping Every Youth Safe* (K.E.Y.S.)

*Behind The Wheel* (#565)

*Parent And Teen Safe Driving Agreement* (#566)

*On The Road* (DVD) (#567)

*Cost Of Driving* (#568)

To order a free copy of any of these publications, call (877) 570-7743 or visit [www.usaaedfoundation.org](http://www.usaaedfoundation.org).

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