








## Take Charge: Wise Use of Credit Cards



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Take Charge: Wise Use of Credit Cards

## Seminar objectives

***Learn:***

- Benefits and costs of credit cards
- How to build a good credit history
- Warning signs of too much debt
- How to figure your credit limit
- How to avoid credit card fraud
- How to get and read your credit report and credit score
- How to cancel unused credit cards



## Plastic: more popular than cash or checks

- In 2003, credit and debit card use surpassed checks for in-store purchases.
- Debit use surpassed credit for the first time.
- The average cardholder has 7 to 10 cards, up from 4.21 in 1999.
- Without plastic, we can't reserve a hotel room or rent a car.



## What's the problem?

- In low- and middle-income families, debt grew 10% from 2001 to 2004, while median income—adjusted for inflation—declined 1%.
- 36% of those who owe > \$10,000 on credit cards make < \$50,000.
- Percentage of disposable income used to pay debts is near record levels.
- Median level of total outstanding debt owed by households rose 9.6% between 1998 and 2001.
- Record bankruptcies in 2005: 2.04 million personal filings (1 in every 53 households)
- About half of households with cards regularly pay balances in full.

## Advantages of credit

### Convenience

- Buy now, pay back later
- Widely accepted
- Carry less cash
- Rewards programs
- No need to show ID or give out personal information
- Monthly statement has record of purchases
- It *can* be an interest-free loan if you pay in full when the bill comes due (borrow without taking out a loan)



### Fraud protection

## Disadvantages of credit cards

- Costly if you carry a balance
- Commits future income needed for necessities
- Discourages comparison shopping
- Encourages impulse buying and overspending
- Items wear out sooner than payments
- Perks provide incentive to overspend





## Credit costs ...

- APR (interest rate)
- Annual fee
- Over-the-limit fee
- Balance-transfer fee
- Cash advance
- Replacement-card fee
- Late-payment fee



## Tips to avoid high fees

- Ask issuer for a due date that's easy to remember—for example, close to payday.
- Use auto bill-pay service.
- Pay online.
- Late fee? Call and ask that fee be waived, especially if you typically pay on time.



## Beware ...



- **The shrinking grace period**
- **The fine print taketh away**
  - Tiered penalty interest rate on late payments
  - Fee if you always pay in full
  - Fee if you don't charge a minimum annual amount
  - Payments to balance transfers are applied to lowest interest rates first, benefiting the issuer
- **Universal default clause**
- **The minimum payment trap**
- **90 days same as cash**



## What happens when you make minimum payments?

<u>Amount owed</u>	<u>Pay-off period</u>	<u>Interest costs</u>	<u>Actual cost</u>
\$1,800	22 years	\$3,800	\$5,600
\$3,900	35 years	\$10,100	\$14,000

Interest rate: 18%  
Payment: \$20 or 2% of balance

## Warning signs that you have too much debt

- Only make minimum payments on credit cards
- At or near your credit limit on cards
- Don't know amount you owe on all debts
- Use cash advances on cards to pay other bills
- Denied credit, or denied credit purchase
- Get calls from collection agencies
- Lie to spouse or family about spending
- More of total income going toward debts

## Examples of expensive credit

- Payday loans
- Refund anticipation loans
- Rent-to-own
- Pawn shops
- Car title pawn loans
- Debt consolidation—check with credit union on options, including home equity line of credit





## Build a good credit history

- Pay all bills on time.
- Establish credit in your own name.
- Just starting out? Get a secured line of credit.
- Limit the number of open lines of credit.
- Have a “mix” of credit over time (credit and retail cards, mortgage, installment loans).



## How to establish credit in your name

- Request a gas card—they’re usually easier to get. Pay promptly and in full each month.
- Pay all bills on time. Pay off student loans.
- Open share draft account. Don’t bounce checks.
- Open a secured credit card account if you can’t get a regular card.
- Obtain small loan from credit union. Pay it back promptly.

## Prerequisites to using credit

- Have a written spending plan.
- Track your spending.
- Live within your means.
- Have an adequate emergency fund.
- Pay all bills on time.
- Know how much of your spendable income is safe to spend on credit.

## Figuring credit limits

### How much is “safe” to spend on credit cards?

- **Calculation 1:** *Monthly take-home pay (net) x 20%*  
[Keep monthly, short-term credit payments below this level.]
- **Calculation 2:** *Spendable income ÷ by 3*  
[Subtract mortgage or rent, utilities, food, clothing, medical, transportation, child care, and other basic needs or regular payments from take-home pay to get spendable income, then divide by 3. Keep credit payments below this level.]

## What's the best credit card?

*It depends on how you use credit!*

### Revolver

- If you always carry a balance, get a card with a low interest rate. Annual fee matters less.

### Partial revolver

- If you sometimes carry a balance, get a card with a low interest rate.

### Nonrevolver (convenience user)

- If you never carry a balance, get a card with no (or low) annual fee and a grace period. Interest rate doesn't matter.

## How to “shop” for a credit card

- Compare rates and terms—read the fine print.
- Understand all fees.
- Beware of low introductory rates on transferred balances.
- Use caution with rewards programs that require high purchase requirements.
- Don't wait for offers to arrive in your mailbox. Call issuers (including credit union) and ask about terms and conditions.


## Avoid credit card fraud

- Protect your PIN and account numbers
- Shred receipts no longer needed
- Use card online—on well-known sites
- Keep phone numbers to cancel cards in safe place
- Never respond to telephone or online requests for personal information—phishing!
- Check statements for accuracy



## A thief stole your *credit card*. 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 or theft in a safe place—not in your wallet!



## A thief stole your *debit* card. What's your liability?

- Nothing, for most signature-based MasterCard and Visa transactions—as long as you haven't been careless.
- Federal law: Your maximum liability is \$50 if you report it within two business days, and \$500 if you report it after that.
- If you wait until after 60 days of receiving your statement, liability can be unlimited.



## What's in a credit report?

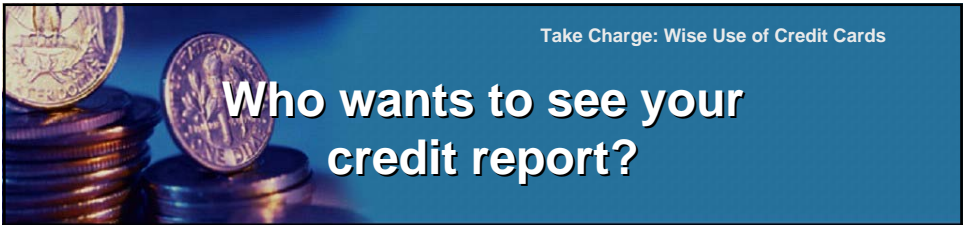
- Identifying information—name, Social Security number, date of birth, address
- Employers
- Creditors and payment history—positive and negative
- Bankruptcies, judgments, liens, lawsuits
- Inquiries you initiated, such as loan and credit applications—not credit card solicitations





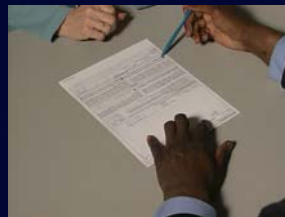
## Read this credit report ... then read yours

- What are the three potentially negative items on this report, and why are they listed as negative?
- What's the monthly payment, length, and balance on the auto loan?
- Who asked about credit history?



## Who wants to see your credit report?

- Lenders
- Landlords
- Insurance companies
- Potential employers



## How long does information stay on your credit report?

- 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.

## How to order your credit report

- Get one free report per year from each agency:
  - [annualcreditreport.com](http://annualcreditreport.com), or
  - Call 877-322-8228, or
  - Send request form to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281
- It's also free if you're:
  - Denied credit within the past 60 days
  - Victim of identity theft
  - Welfare recipient
  - Unemployed and job-hunting
  - Resident of CO, GA, ME, MD, MA, NJ, and VT



## If your credit report has errors ...

### Current law entitles you to correct mistakes:

- Write a letter to the credit bureau explaining why you think information is inaccurate.
- Credit bureau has 30 days to investigate, notify you of results, and delete inaccurate or unverifiable information.
- If you disagree with investigation results, write a dispute statement to appear in your file.



## The “Big Three” credit reporting agencies

### Equifax

Order report: 800-685-1111

Fraud Unit: 800-525-6285

[equifax.com](http://equifax.com)

### Experian

Order report: 888-397-3742

Fraud Unit: 888-397-3742

[experian.com](http://experian.com)

### Trans Union

Order report: 800-888-4213

Fraud Unit: 800-680-7289

[transunion.com](http://transunion.com)



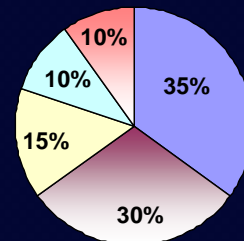
## What is a credit score?

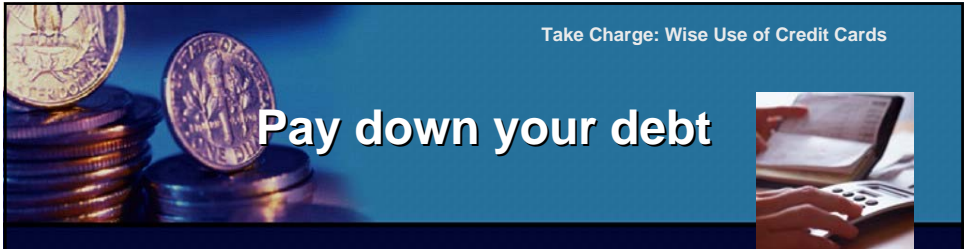
- **Number that represents creditworthiness**
  - The higher the number, the better
  - Changes over time, depending on payment history
- **Answers the question, “How likely are you to repay the loan?”**
- **Range:**
  - FICO®: 300 to 850
  - VantageScore: 501 to 990
- **Order your score from “Big 3” or myfico.com**



## What affects your credit score?

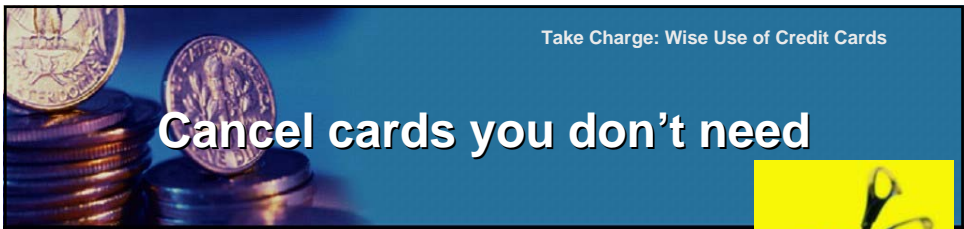
- **Payment history (35% of score)**
  - *Do you pay bills on time?*
- **Amounts owed to creditors (30%)**
  - *Do you owe a lot of money to a lot of people?*
- **Length of credit history (15%)**
  - *How established is your credit history?*
- **New credit (10%)**
  - *Are you increasing your debt obligations?*
- **Types of credit currently in use (10%)**
  - *Do you have a “healthy mix”?*





## Pay down your debt

- **Power pay principle: Pay off debts with highest interest rate first, while making at least minimum payments on all debts**
- **Once you pay off the most expensive debt, apply the same total monthly amount to remaining debts**
- **Finally, apply the same total monthly amount to the one remaining debt to pay it off quickly**
- **Build savings reserve for future emergencies**



## Cancel cards you don't need

- **“Plastic surgery” doesn't cut it**
- **High line of credit could work against you**
- **Write letter and tell issuer to notify the credit bureau that account was closed at customer request**
- **Follow up—check credit report to make sure account was closed**

## If you can't pay your bills each month ...



- Don't ignore creditors. Call first. Work out repayment plan. Show good faith.
- Ask CCCS to help negotiate with creditors. 800-388-2227
- Stop using credit cards. Don't add new debt.

## Rebuilding good credit

- Pay all bills on time
- Get your credit report—check for accuracy
- Consolidate debts
- Get secured credit card if denied credit
- Beware credit repair clinics
- Seek credit counseling—referral from CU
- Reduce unwanted credit card solicitations ([optoutprescreen.com](http://optoutprescreen.com) or call 888-5-opt-out)



# Resources

Credit Union National Association  
[www.creditunion.coop](http://www.creditunion.coop)

Fair Isaac Corporation  
[myfico.com](http://myfico.com)

Federal Trade Commission  
CRC-240  
Washington, D.C. 20580  
[www.consumer.gov/idtheft](http://www.consumer.gov/idtheft)  
(click "For Consumers")



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