Cracking The Credit Code

Presented by: Financial Foundations

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Credit Cards: The good, the bad, and the ugly

Often college students are bombarded with offers for credit cards. These can seem enticing to students who could use the extra spending capabilities. But not all credit cards are alike and using credit cards the wrong way can have effects on your credit history that take years to undo. heed this advice to weed through the offers and make the choice that's right for you and your financial future.

Be aware of teaser rates
Credit card companies sometimes offer low introductory interest rates to attract new customers. These rates typically last for only a few months and then jump as high as 20 percent. It's important that you carefully compare offers from several different issuers before selecting a card.

Stick with one credit card
Just because it's easy to apply for multiple cards doesn't mean you should. This is especially tempting when department stores offer discounts on purchases if you apply for a credit card and pay off only one bill at the end of the month. Besides, applying for multiple credit cards can hurt your credit rating. Also, using one credit card to pay off another is a dangerous practice that should be avoided.

Pay in full every month
Get in the habit of paying the balance in full each month, which means don't charge more than you can pay off at the end of the month.

Pay on time
Send the credit card payment several days in advance of the due date to allow for mailing time. Late penalties are costly and some companies will increase the interest rate after one or two past-due payments. Consider paying online if you have trouble keeping up with due dates.

Avoid cash advances
Be aware that the interest rate on cash advances can be much higher than the rates charged on purchases.

Don't exceed the credit limit
This helps avoid penalties and ensures that you will have credit available in the event of a true emergency. A $2,000 credit limit doesn't mean that you can afford to carry a $2,000 balance.

Review statements carefully
Immediately inform the credit card company of any discrepancies or errors on your monthly statement.

Report a lost or stolen card immediately
Keep a copy of your credit card account number and the financial institution's name and customer service telephone number in a convenient place in case your card is lost or stolen.
Protect personal information
Never provide your credit card number unless making a telephone, mail order, or online purchase. Also, don’t let anyone else use your credit card and don’t charge purchases for other people. Learning how to use credit wisely now will help you avoid serious credit problems later.

Establishing Credit and Protecting Your Credit History
If you are trying to establish credit for the first time, you’re likely to find yourself in a Catch 22 situation: you need credit to establish a credit history, but you can’t get credit without a credit history. While this may seem challenging, it’s not impossible.

Open a bank account
Opening a savings and/or checking account is the first step in establishing a financial history. Follow the bank’s rules and be sure you don’t overdraft your account. While bank accounts don’t create a credit file, their very existence demonstrates that you have money and shows you can handle it responsibly.

Put your apartment and utilities in your name
Putting your apartment and utilities in your name allows you to establish a regular payment history under your own name and Social Security number. Recurring bills, such as rent, utilities and car insurance payments, paid in a timely manner can indicate that you are a good credit risk. Keep copies of the bills and your canceled checks. You might also ask your landlord, utility company, or insurance agent to write letters on your behalf stating that you have consistently paid your bills on time.

Apply for a charge card
Consider applying for a department store or gas credit card. These cards usually carry low credit lines and are typically easier to obtain. The interest rate may be high, but if you pay the entire balance each month, the rate won’t matter. Before opening one, ask if the lender reports repayment information to a recognized credit-reporting agency. Not all do. Think twice before going with one that doesn’t, because you don’t want your efforts to establish a credit rating to be wasted.

Consider a secured credit card
Another way to establish credit is through a secured credit card. With this method, you deposit a specific amount into a special account and you receive a card with a credit limit that equals your deposit. For example, if you deposit $1,000, your credit limit will be $1,000. In effect, you are borrowing against your own money and paying interest to do so. Although this is not a good financial deal, it’s a viable way to establish credit.

Shop carefully for the right card
When you feel you have established a record of responsible payments, search for cards with low fees and interest rates. Be sure to read the fine print regarding terms and conditions and take note of the late payment penalties. Beware of cards that offer low introductory interest rates and then increase significantly after the introductory period.

Your FICO score
FICO is an acronym for the Fair Isaac Corporation, the creators of the FICO score. The FICO score takes into account various factors in each of these five areas to determine credit risk: payment history, current level of indebtedness, types of credit used, length of credit history, and new credit.

Once you have credit, protect it
Once you have a credit card, establish a good history by using it responsibly and making timely payments. Be sure to allow several business days for payments made by mail. Also, protect your credit history by safeguarding your credit cards. Carry only the credit card you expect to use and keep others in a safe place. Maintain a list of account numbers and telephone numbers of the companies that issued your cards. This way, if the cards are lost or stolen, you can notify the companies quickly. Finally, be sure to check your credit report at least once a year to verify its accuracy. You can do this for Free through the Web sites of the three largest credit reporting agencies: Experian, Equifax and Trans Union.
Basic Financial Credit Terms

Before applying for your first credit card, you should fully understand other credit financial terms as well, otherwise you may end up with a few surprise fees. Learning to decipher these important terms will allow you to do a better job of managing your money properly.

Credit Limit
A card's credit limit is the maximum amount that can be charged to the card at any given moment. So, if you have a card with a $2,000 credit limit, when you reach this purchasing limit, you won't be able to charge any more to that credit card until you reduce the balance below $2,000. Note that if your creditor does allow you to go over the limit, you could be charged a penalty fee.

Balance
This is the amount on your credit card prior to your monthly payment. If during a month you charge $200 to your credit card, then this amount, plus any fees and the calculated APR rate, is your balance. If you pay this entire amount off within the month, then your balance would return to 0, otherwise your balance is reduced by the amount of your payment. Note that the higher you keep your balance over a long period of time the more your credit score is adversely affected.

APR
This is the Annual Percentage Rate your credit card lender charges. Different users are offered different APR rates. Normally, people with higher credit scores get lower APR rates as a reward for their prompt payment, while those with past credit issues are usually offered higher APR rates. These rates can fluctuate during the year, depending on whether you chose a fixed APR rate or a variable one. Fixed rates remain the same, while variable rates may start low and gradually increase or decrease throughout the year.

The Grace Period
This is the leeway time you are given to pay your balance before a finance charge is applied. In most cases this grace period applies to when the credit card lender receives the payment. Not all credit cards have grace periods, but many do, especially if you are creditworthy. If you happen to be finance savvy, apply for a card that has a grace period; pay all of your credit card balance off on a monthly basis, and you probably won't have to pay the APR finance charge.

Credit Card Fees
Some credit card companies charge annual, monthly, cash back, international use or other fees. In most cases, these fees are listed within the contract of the credit card application. This is why financial experts always suggest you read the fine print before signing any credit card contract.

Rewards
Because the credit card business is competitive, many companies offer incentives and rewards, especially to long standing customers, or those who are creditworthy and have high credit card spend. These rewards take the form of cash back, airline discounts, points to redeem for certain items, or other types of incentives.
Credit scores are so important that it is vital that you educate yourself on how to find and monitor your credit score. Here are a few strategies:

- Credit Karma
- Credit Sesame
- Vantage Score

The above agencies offer free "educational" credit scores. So they may differ by a few to as many as 100 points from your true FICO score.

You can get a free credit score from MyFico if you sign up for a free 10-day trial. But remember you must cancel or they will charge you.

Checking your credit score at least once a year will get you on target to reaching your financial goals.
Credit Report 101
A Simple Guide To Building Your Score

Credit history can determine whether you get a good job, a decent apartment, a deal on your cell phone and reasonable rates on insurance. If you're just starting out, you have a once-in-a-lifetime opportunity to build a credit history the right way. Here's what to do and what to avoid...

1. Check Your Credit Report
Credit reports are used to create your credit scores, three-digit numbers that lenders typically use to gauge your creditworthiness.

- Equifax: $12.95/month
- Experian: $14.95/month
- Trans Union: $7.95

You're entitled to a free annual look at your reports from AnnualCreditReport.com.

- Can you have a credit report if you've never had credit? Maybe.
- Somebody else's information could be mixed in with your report, either through a credit bureau mistake or because of identity theft.

2. Establish checking and savings accounts
Lenders see bank accounts as signs of stability.

You'll need to clean up your credit report before trying to apply for new accounts.

- Check The Federal Trade Commission's identity-theft site.

3. Understand the basics of credit scoring
The important factors:
- Whether you pay your bills on time
- How much of your available credit you actually use
- Amount Owed
- Length of Credit Score
- Type of Credit Used
- Main Credit

Set up automatic payments or reminder systems so that you're never, ever late!

4. "Borrow" another's record
Keeping your credit use to less than 30% of your credit limits (10% is better).

Pay your bill in full each month.

5. Apply for a secured credit card
Convert to a regular, unsecured credit card after 12 to 18 months of on-time payments.

Have no application fee and a low annual fee.

6. Get a store card
These cards don't do as much for your credit scores as a bank card (Visa, MasterCard, Discover, etc.), but they're usually easier to get.

Get an installment loan to get the best credit scores...

7. "Including revolving accounts (credit cards, lines of credit) and installment accounts (auto loans, personal loans, mortgages)."

Using your cards regularly should ensure that your report is updated regularly. It will also keep the lender interested in you as a customer. If you get a credit card and never use it, the issuer could cancel the account.

8. Use revolving accounts lightly but regularly
You have to have had credit for at least 6 months, with at least one of your accounts updated in the past 6 months.

"Pay on Time, Wipe Out Debt, Raise Credit Score"

If you don't like what you see, can you improve your score? Yes. Fortunately, scoring models put more emphasis on the present than the past. So with every bill you pay on time and every debt you wipe out, your score will rise.

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How to Avoid Identity Theft

Identity theft occurs when a person commits fraud while posing as someone else. The threat of identity theft is real and can take months or even years to recover from. Use the information below to familiarize yourself with the precautions you can take to minimize the chance of becoming a victim and, if you are a victim, help you recover from the situation.

Follow These Helpful Hints to Avoid Becoming a Victim of Identity Theft:

**Personal:**
1. Order a copy of your credit report on a frequent basis (at least annually, preferably quarterly). You can request your credit report at AnnualCreditReport.com.
2. If you have to give private information over the phone, ensure you are in a secure location.
3. Shred all financial statements, billing statements, and pre-approved credit card offers.
4. The IRS does not request personal/financial data through email, so don’t respond to any emails asking for that information.
5. Check your financial accounts regularly.
6. Select Personal Identification Numbers (PIN) and passwords carefully so they can’t be easily guessed by someone else.
7. Don’t give out private information over the phone or internet unless you have initiated the contact or know for certain to whom you are speaking.
8. Destroy your computer’s hard drive if you are selling it or giving it away.
10. Don’t carry your registration in your vehicle, instead carry it in your wallet.
11. Make photo copies of all of the cards in your wallet and keep them in a safe place.

**E-Commerce:**
1. Ensure you are using an ATM without someone watching you.
2. Pay your bills online using a secure website.
3. Avoid entering your credit card number online unless it is encrypted on a secure website.

**Mail:**
1. Take outgoing personal and/or bill payments to U.S. Postal Service mailboxes or drop them off inside a post office.
2. Have the post office hold your mail when you are out of town.
3. Don’t leave mail sitting in an unprotected mailbox.

**Banking:**
1. Review monthly bank and credit card statements for mistakes or unfamiliar charges.
2. Have your paychecks directly deposited into your bank account.
3. Avoid providing personal information over the phone or via the internet.

If You Are – or Become – a Victim of Identity Theft, Follow These Steps to Protect Yourself:

1. Contact the Federal Trade Commission (FTC) at FTC.gov or 877.438.4338.
2. Contact the fraud departments of any one of the four major credit bureaus:
   - Equifax ......................... 800.525.6285
   - TransUnion .................. 800.680.7289
   - Experian ...................... 888.397.3742
   - Innovis ......................... 800.540.2505
3. Close the accounts that have been used fraudulently.
4. File a police report.
5. Keep an identity theft log for your personal records.
6. Contact other agencies that might be involved: Social Security Administration’s Fraud Hotline (800.269.0271), U.S. Postal Inspection Service (888.877.7644), and the Internal Revenue Service (800.829.0433).