



THE USAA
EDUCATIONAL
FOUNDATION®

Good Information for Good Decisions.®

MONEY MANAGEMENT

GET CREDITWISE



OUR MISSION

The mission of The USAA Educational Foundation is to help consumers make informed decisions by providing information on financial management, safety concerns and significant life events.



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2 CREDIT MATTERS

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

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.

| GOOD CREDIT CAN HELP YOU | POOR CREDIT CAN KEEP YOU FROM |
|--|--|
| <ul style="list-style-type: none">• Qualify for certain jobs.• Obtain affordable insurance for your vehicle or home.• Obtain lower-interest loans.• Receive job-related security clearances.• Rent an apartment or home.• Purchase a vehicle or home. | <ul style="list-style-type: none">• Qualifying for certain jobs.• Qualifying for insurance or obtaining affordable insurance.• Securing a loan for large purchases.• Getting an approved background check by your employer or for the military.• Qualifying for an auto loan or home mortgage. |

Keep In Mind

Credit is borrowing. When credit is used, there is a creditor (the individual, bank, store or company that is owed money) and a debtor (the individual 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.

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 An ATM/Debit Card

After you have proven your ability to manage checking and savings accounts responsibly, add an ATM/Debit card. While it does not establish credit, using an ATM/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.

CHOOSING A BANK

- Identify several banks with strong reputations.
- Compare their services and fees.
- Look for conveniences such as ATM, debit, electronic and mobile 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.

ESTABLISHING CREDIT

To get a head start on establishing good credit, open a joint savings and/or a checking account with a parent or guardian before you turn 18.

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YOU OFFER MORE
INFORMATION.
SEE “RESOURCES”
ON THE INSIDE
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THIS PUBLICATION
TO ORDER FREE
COPIES.**

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, and make payments promptly to establish your creditworthiness.

Get A Credit Card

When you are ready, apply for a major credit card. Shop around before you apply.

- Look 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 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.

SELF TEST #1

Circle the correct answer for each question.

| | | |
|--|---|---|
| 1. Credit is free money for your use. | T | F |
| 2. ATM/Debit card use helps establish credit. | T | F |
| 3. You do not have to pay interest on a secured credit card. | T | F |
| 4. You should not apply for more than one credit card at a time. | T | F |

Answers on page 11.

Unfortunately, many individuals end up deep in debt, because they do not use credit wisely and 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 |

In the example above, if you only paid the minimum each month, it would take you almost 22 years to pay a \$3,000 balance on a card charging 18 percent. The best strategy is to look for the lowest interest rate you can find, spend wisely and pay the entire balance at the end of each billing cycle.

Stick To A Budget

A budget 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.

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.
- **Bankruptcy** is the legal process when an individual's or organization's assets are turned over to a trustee and used to pay outstanding debts.
- **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, usually 25 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.
- **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.

Safe Credit Use

When you have a credit card or loan be responsible.

- 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.
- 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

- Items that appreciate in value (a home or home improvements).
- Furthering your education or enhancing your trade skills.
- Items that have value longer than it takes to pay for them (a vehicle or furniture).

DO NOT USE CREDIT FOR

- Non-essential goods and services (vacations, dining out, clothing or holiday gifts).
- Exception:** When you can afford to pay these charges in full upon receiving your statement.

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.

8 MONITORING YOUR CREDIT

FIVE FACTORS FOR DETERMINING CREDIT SCORES

1. Payment history.
2. Length of credit history.
3. Types of credit used.
4. Amounts owed.
5. New 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' experiences 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

In addition to your credit report, creditors may also look at your credit score. Your credit score is a three-digit numerical summary of your credit report.

Credit scores range from approximately 300 to 850. The higher your score, the better. Most lenders consider scores above 700 good credit risks, while scores below 620 may indicate credit problems. A low score may cause you to be denied credit. With a slightly higher score you could get credit but at a higher interest rate. If your score is high enough, you may qualify for the best rate on a loan or credit account.

When you request your credit report, you should consider requesting your credit score, as well — even though there is a fee. Fees can range from \$9 to \$20.

Scores take five factors into consideration. No single piece of information determines your score. But one or more of the factors may affect the final score more significantly than others depending on the overall information in your credit report. Your score can also change as new information is received by credit reporting agencies. Your score today could be different than the score you have 3 months from now.

| 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 And 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. |

Order A Free Credit Report

You can request a free credit report **annually** from any or all of the three credit reporting agencies. These agencies also sell various financial products and services which you are not required to purchase.

You are entitled to an additional free credit report at **anytime** if you have been denied credit, are a victim of identity theft, receive welfare benefits or are unemployed but expect to apply for employment in the next 60 days.

A poor credit report could mean you will be denied a loan or credit card or incur higher interest rates. You could also be turned down for insurance, an apartment or even a job. **Review your credit report at least once each year to ensure it is accurate and that you are not the victim of identity theft.** It is also important to check your credit report before you apply for a mortgage or other major loan.

You can request your free annual credit report online at www.annualcreditreport.com or by contacting the agencies individually.

CREDIT REPORTING AGENCIES

Equifax
(800) 685-1111
www.equifax.com

Experian
(888) 397-3742
www.experian.com

TransUnion
(800) 916-8800
www.transunion.com

SELF TEST #3

Circle the correct answer for each question.

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

Answers on page 11.

10 MAKING CREDIT COUNT

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

Establish Good Credit

- 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 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.

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.

Self Test #1

1. *False.*
2. *False.*
3. *False.*
4. *True.*

Self Test #2

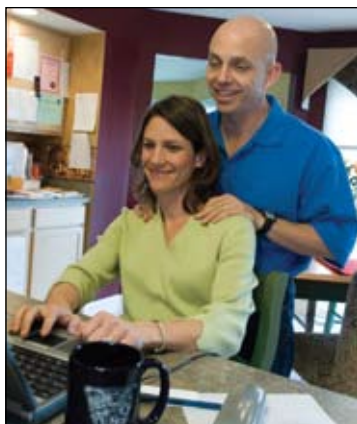
1. A saving and spending plan is called a **budget**.
2. Avoid charging more than you can **repay** each month.
3. Use credit for items that **appreciate** in value or provide **income**.
4. It is best to pay credit card bills on **time** and in **full**.

Self Test #3

1. *True.*
2. *True.*
3. *True.*
4. *False.*

12 NOTES

RESOURCES



The USAA Educational Foundation offers the following publications.

MANAGING CREDIT AND DEBT (#501)

GET MONEYWISE (#504)

**BUILDING AND MAINTAINING
GOOD CREDIT (#536)**

**MAKING MONEY WORK FOR
YOU (#523)**

**MANAGING YOUR PERSONAL
RECORDS (#506)**

BASIC INVESTING (#503)

GET INVESTMENTWISE (#521)

KEEPING EVERY YOUTH SAFE (K.E.Y.S.)

- **BEHIND THE WHEEL (#565)**
- **ON THE ROAD (DVD) (#567)**
- **COST OF DRIVING (#568)**

LIVING A GREENER LIFE (#560)

INTERNET SAFETY FOR TEENS (#573)

IDENTITY THEFT (#520)

BICYCLE SAFETY (#542)

FINANCING COLLEGE (#513)

HOW TO SUCCEED IN COLLEGE (#512)

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