Credit

Credit Cards

A credit card can be a great financial tool if you use it wisely. It gives you the option to pay for your purchase at a later date and make payments over time. When you use a credit card, you're taking out a loan. Credit card companies and banks are letting you borrow their money when you use a credit card. If you pay for your purchases in full every month, you can avoid paying interest and this will help to build your credit history. If you don't pay the entire balance, you will be in debt and you will pay interest on the total owed.

Credit cards are a good option for making purchases online because many offer fraud protection programs. Although a debit card might have the capability to be used as "credit", it withdraws the funds from your checking account.

Credit Card Terms

When you are looking for a credit card, it is important to compare fees, interest rates, finance charges, and any benefits offered. You also want to check out the company's customer service hours. A 24 hour number is a great resource if your card is lost or stolen. You can minimize your liability of fraudulent charges by letting the company know right away.

Fees: Many card companies have fees. You want to be sure you read the card agreement and are aware of any fees associated with the card. You could be charged an annual fee (or a membership fee) to be a card holder.

Interest Rate: This is the price you pay for borrowing money. You can avoid paying interest on your credit card if you pay the balance in full every month.

APR Annual Percentage Rate: The yearly cost of the loan including interest and fees; expressed as a percentage.

Introductory APR: Your card may have an introductory period during which your rate is lower at that time. At the end of the introductory term, the rate will increase.

Before you enter any credit agreement, you should look at the fine print concerning the introductory period and the terms after that time ends. Your credit card company may also offer you an interest free period. This is the amount of time where you will not be charged interest on your balance.

Penalty APR: Your interest rate may rise if you trigger one of the penalty terms: paying a bill late or sending a bad check to pay the bill. You can also receive a late payment fee if those events happen.

Fixed Rate APR: A set interest rate that cannot change during the time period outlined in your agreement.

Variable Rate APR: The interest rate may change.

Credit Scoring and Credit Reports

A credit scoring system gives you points for each factor that helps a creditor or lender predict if you are a good candidate for a credit card or a loan. The credit score shows how likely you are to repay the loan and make payments on time. The score is simply a numeric representation of information about your past credit experiences. The information includes your bill paying history, how many credit accounts you have, what type of accounts and how old they are, if you pay your bills on time, and if you have any outstanding debt. The total points for each of these factors equal your credit score.

Some businesses or employers are using your credit report to determine whether or not they will issue you a policy, rent you an apartment, or hire you for employment. When you are ready to buy a home or a car, a higher credit score means you are more likely to get the loan when you need it and get a lower interest rate. When you need insurance for that home or car, a better credit score can help you get a better policy and pay less for your premiums. In short, a higher credit score equals future savings. Your credit report is a key part of how your finances are affected so it is critical to make sure that your report is accurate.

What Can You Do To Improve Your Score

Improving your score takes time. It changes as new information about how you handle credit is added to your credit bureau file.

Pay your bills on time. Payment history is a huge factor of your score. If you have paid bills late or have been reported to collections for lack of payment; it can keep you from getting credit in the future. If you make a payment that is not the full amount of the minimum payment required, the lender can report that you missed a payment. Always pay the minimum payment by the due date. If you choose to only pay the minimum payment, you could stay in debt for a very long time.

Don't max out your card limits. 30% of your score is based on your debt-to-credit ratio. This is the amount of debt you have compared to your total credit limit.You do not need to carry a balance on your card to improve your score. Your best strategy for a good credit score is to pay your bill in full each month.

Don't apply for new credit lines unless you really need them. Recent inquiries account for 10% of your total score and several inquiries at once will drop your score. Also, the number of cards you carry account for 10% of your score. You don't need a large amount of cards, just one or a small amount of established ones.

Your Credit May Affect Your Employment

When you apply for a job, a potential employer may ask your permission to do a background check. The check could include your employment history, driving record, criminal records, *and your credit report*. Before you apply for a job, it's a good idea to order a free copy of your credit report and make sure nothing on it is derogatory or false.

Your Rights

The Fair Credit Reporting Act gives you the right to one free credit report annually from each of the three main credit reporting agencies (Equifax, Experian, and Transunion). You can obtain this by visiting www.annualcreditreport.com

The Equal Credit Opportunity Act says that a creditor's scoring system may not use certain characteristics as factors. These include your race, sex, marital status, national origin, or religion. They are allowed to use your age as a factor because minors cannot enter into a contract.

You have the right to know if your credit application was accepted or rejected within 30 days of applying. If it was rejected, you have the right to know why.

Acceptable reasons a lender could give are: “your income was too low” or “you have not been employed long enough”. Unacceptable reasons are vague answers like “you didn’t meet our minimum standards”.

You could be approved for a loan but offered less than favorable terms because of information on your credit report. You are allowed to ask why you aren’t getting the best offer. Not everyone who applies for credit gets the same terms because everyone’s factors and credit histories are different.

The Credit Card Act says that your credit card company must notify you 45 days before they change your interest rate. They cannot increase the interest rate on any existing balance.

The Truth in Lending Act requires that lenders inform you of the terms of your loan and how much it will cost to borrow the money.

The Fair Credit Billing Act requires that a credit card company must promptly credit your payments and correct mistakes on your bill without damage to your credit report.

The Fair Debt Collection Practices Act says that a collection agency cannot use abusive methods to collect a debt and they cannot contact you at work if you tell them your employer does not allow it. They also can only contact you between 8:00am and 9:00pm; this is in your time zone, not theirs!