

New credit

Do you know how to play your cards right?



Getting in on the credit game

In most card games, someone invites you to join in. When they do, you are dealt a hand. What you do with those cards is up to you. Play them wisely, and you may win. Make bad decisions, and you could lose. The credit game is much the same, with a very important difference. You are the only person in the game. Manage your credit well and you can't lose.

If you play the credit game well, you will have the added flexibility and security of credit at your disposal. You will be able to improve your lifestyle through purchases that are possible only with credit, utilize services that are easily available only if you have a credit card — renting a car for example — and have the resources to pay for unexpected emergencies.

However, there are risks. Poorly managed credit can drive you deep into debt. Getting back in the game is not easy, but with time and self-control, you can regain control and get a fresh start.

Weigh the benefits and risks carefully. If you're sure you want to join in, read on.

The rules

The rules of credit are few and simple. A lender extends you a line of credit. You agree to pay the lender back the amount you spend plus finance charges and perhaps additional service fees. A payment schedule is set up, and you are required to make payments according to that schedule.

The most important rule is to pay your bills on time. If you observe that one

simple rule, you will succeed at the credit game.

The playing cards of credit

In a deck of cards, there are four suits: hearts, diamonds, clubs and spades. Credit can be similarly divided. Here are the kinds of credit you may use:

Revolving credit: Most credit cards are a form of revolving credit. This simply means you are given a maximum credit limit, and you can make charges against that limit, carrying a balance and making payments each month. When you carry the balance forward, you are revolving the debt. However, a smart player avoids interest fees by paying in full every month.

Charge cards: While they often look like revolving credit cards and are used in the same way, charge accounts differ in that you must pay the total balance each month.

Service credit: Often overlooked, your agreements with service providers are all credit arrangements. You receive goods (natural gas, electricity) or services (apartment rental, cellular phone use, health club memberships) with the agreement that you will pay for them each month, just as you would with any other form of credit. Your contract may require payments for a specified number of months, even if you stop using the service. Your accounts with service providers and the associated payment history are appearing more commonly on credit reports. Unpaid bills are almost always reported when the account is

turned over to a collection agency. These service providers also are very likely to check your credit history before allowing you to sign up for their services.

Installment credit: Car loans and mortgages are two examples of this type of credit. Installment credit is among the most common and easily understood. A creditor loans you a specific sum of money, and you agree to repay the money and interest in regular installments of a fixed amount over a set period of time, usually measured in months or years.

Basic terminology

When you are playing cards, it is important to know what the terms mean: straight, flush, trump, gin, go-fish. Credit has its own set of terms that are important when making decisions about the kinds of credit you want or need and the best options for you. Here are a few of the most common:

- **Annual fee:** Credit card issuers often, but not always, require you to pay a special charge annually for the use of their service — usually between \$15 and \$55.
- **Annual percentage rate (APR):** The APR is a measure of how much interest credit will cost you, expressed as an annual percentage.
- **Finance charge:** The cost of credit, including interest and additional charges that may be applied under the terms of your contract.
- **Fixed rate:** An annual percentage rate that does not change.
- **Grace period:** The time period you have to pay the bill in full and avoid interest charges.
- **Transaction fees:** Fees charged for certain uses of your credit line — for example, to get a cash advance from an ATM.
- **Variable rate:** An annual percentage rate that may change over time as the prime lending rate varies or according to your contract with the lender.

Joining the credit game

Now that you know the basic rules and terms, it's time to join the game. But how do you start? Getting your first line of credit sometimes can be challenging. If you don't have a credit history or if you have a serious negative factor like bankruptcy, lenders may be reluctant to extend you credit.

You may want to talk to a local department store or the bank where you have a checking or savings account. Ask if the institution will open a line of credit for you, perhaps for only \$200 or \$300.

It may be necessary to have a parent or a friend with a strong credit history cosign for you. If a person cosigns on your behalf, he or she is accepting equal responsibility for the loan or credit line, and the account will appear on his or her credit report, too.

Without someone to cosign, you may need to begin with a secured line of credit. To do so, you must open an account with a bank or other lending institution. In turn, you will receive a line of credit with a limit equal to a percentage of your bank account balance. Often, this type of credit has higher interest rates and fees, but it may be a good way to get the first card in your hand.

When you are extended a line of credit, use it and do so carefully. Be certain your account is reported to a credit reporting company, and pay on time.

Additional credit tips

- Set up a budget and stick to it. You need to be aware of how much debt you already have and how much you are adding to that debt by buying with credit.
- Shop around for credit. Lower interest rates, lower or no annual fees, cheaper service charges, and additional benefits such as frequent-flier miles or special insurance rates are available. Find the credit that is right for you.

- Once you have signed a financial agreement, you are responsible for it unless the company agrees to release you from the agreement. That not only includes credit cards or installment loans, but also health club memberships and cellular telephone contracts — even if you stop using the service. Remember also that a divorce decree does not release you from responsibility for joint accounts.
- Protect yourself from credit fraud. Treat your credit cards like cash. Sign them as soon as you receive them. Don't leave them lying around. Shred any documents that have your account number or other identification details on them, and do the same with credit offers you receive in the mail but choose not to accept.
- Look over your credit report once a year. Reviewing your report will ensure that your accounts are being reported correctly to Experian. Obtain free copies of your credit reports at www.annualcreditreport.com. If you already have received your free report, you may purchase another by contacting Experian directly at www.experian.com or by calling 1 888 EXPERIAN (1 888 397 3742) for information on how to get a copy of your Experian credit history.
- When you get your credit report, also purchase a credit score report. The score and the report that accompanies it will give you a better understanding of where you are in terms of general credit risk and provide information about what information on your credit report is affecting your credit scores the most. You then can act on that information to increase your creditworthiness.

For more information, please e-mail us at consumer.education@experian.com.