

Being a Savvy Credit Card User

You do not always have to have the cash in hand or even in your bank account to buy what you want. You can often buy on credit, which means another institution pays on your behalf, with the agreement that you will pay eventually, possibly with interest. When you use a credit card, you agree to repay the credit card company the original amount of your purchase—plus interest, if you take more than about a month to pay.

With a credit card, the temptation to purchase items you cannot pay for is high. Being a savvy credit card user means knowing how to use a credit card responsibly and understanding the effect that credit card use can have on your credit report. A credit report is like a report card informing lenders about your debt history.

Why be a savvy credit card user?

Good credit can help you buy “big ticket” items, like a home or car, and increase your chances of getting lower interest rates on loans and better deals on car insurance. Accumulating credit card debt can create financial and emotional turmoil. Problems with your credit history can make it difficult to get a car loan, rent an apartment, or even get a cell phone service plan.

How can you be a savvy credit card user?

Credit cards come in handy at critical times and, if used wisely, can help you build a credit history. Use these tips and the activity on the next page to become a savvy credit card user.

- 1 **Spend only what you can afford.** Keep track of what you spend. Use your card only when you know you can pay for the purchase within the next month.
- 2 **Pay off your balance or keep it low.** Credit card companies make their money when you do not pay the full amount you owe. The amount you do not pay off is called your balance. Credit card companies typically charge you 10% to 20% of the *balance*, called *interest*, every single month. If you do not pay off your balance right away, that interest can really add up. People who end up over their heads in debt often got there because they did not pay off their credit card balances or keep them low.
- 3 **Pay bills on time.** Pay your credit card bills by the due date. If you are late on a payment, you will be charged a late fee, your interest rate may increase, and your credit can be damaged. Pay your bill as soon as possible after you realize you are late, as every day counts. If you cannot pay on time, contact the credit card company before you miss a payment to make arrangements for another payment date. Ask the creditor if your late fee can be waived.
- 4 **Pay more than the minimum due.** Making only the minimum credit card payment required increases the amount of time you will be paying off your purchases. As the interest adds up, you will end up paying a lot more. For example, if you made a \$200 purchase and then made only the minimum \$10 monthly payments, it would take you 2 years plus \$40 in interest to pay for the purchase. If you cannot pay off your balance in full, pay as much as you can beyond the minimum payment each month.
- 5 **Avoid taking cash advances.** Cash advances start incurring interest as soon as you take out the money, and the interest rate can be higher than the rate for purchases. You will likely also be charged a cash advance fee.
- 6 **Review your monthly statements.** Check your monthly bill for any errors. If fees or transactions are incorrect, contact the creditor immediately and ask that the issues be corrected.
- 7 **Monitor your credit reports.** You can receive free reports from the three main credit bureaus every 12 months. You can do this online. Check your reports for errors and dispute any incorrect information. Also check for evidence of credit card accounts that you did not establish to make sure you have not been a victim of identity theft.

Using a Credit Card Responsibly

In college, Jasmine used credit cards to purchase things she could not really afford. She planned to make the minimum payments throughout college and pay the balances off once she graduated and got a job. However, once the introductory interest rates ended, she found herself paying nearly 20% interest on each card. Soon she was late on her payments. After graduation, other expenses—like rent, groceries, and utilities—competed for her money. When she requested a copy of her credit report, this is some of what she saw.

Open accounts: Lists any accounts you currently have.

Date opened: Lists the date you opened the account. The longer you have had an account in good standing, the better your credit record.

OPEN ACCOUNTS									
CREDITOR	DATE REPORTED	DATE OPENED	CREDIT LIMIT	BALANCE	PAST DUE	30	60	90+	STATUS
WESTERLAND BANK	10/09	02/05	\$5000	\$4797	\$0	0	0	0	AS AGREED
M'S STORE	10/09	05/05	\$500	\$158	\$0	2	1	0	AS AGREED
EASTERLAND BANK	10/09	06/08	\$4000	\$1015	\$98	0	0	0	AS AGREED

Credit limit: Shows how much credit you have been extended. Try to keep your balance to no more than 25% of your limit.

Balance: Displays your balance on the date of the credit report. Keep your balance as low as possible by always paying more than the minimum due.

Past due 30/60/90+: Lists the amounts, if any, you are currently late in paying. The “30,” “60,” and “90+” columns list the number of times you were that many days late. To establish a good credit rating, it is extremely important that you have no late payments.

DEROGATORY ACCOUNTS									
CREDITOR	DATE REPORTED	DATE OPENED	CREDIT LIMIT	BALANCE	PAST DUE	30	60	90+	STATUS
CREDIT EXPRESS	10/08	09/05	\$5000	\$3306	\$3306	—	—	—	COLLECTION

Derogatory accounts: Lists any accounts that were closed (in the last 7 to 10 years) because you did not pay your bills. Having anything in this section will limit your ability to get new credit.

Status: Shows how the account was closed. In this instance, it was sent to collection, meaning the company could not get payment from Jasmine, so they sold the debt to a collection agency.

Now answer these questions.

1. Based on Jasmine's credit report, which of the tips did she follow pretty well? Which of the tips did she not follow very well? Give evidence for your answers.
2. What might be some of the consequences for Jasmine of her credit report?
3. What are three or four things you can do to build good credit?