

Money TALKS

Should I Be Charging?

Keys To Credit

Chris Wants a New Sound System

Chris wanted to buy a new sound system for her truck. When she went to Super Stereo Warehouse to check out how much a system with HD radio was going to cost, she realized that the total price of the system, with installation, was going to be \$200 more than what she had saved. Chris was able to save \$400 from money she had received for graduating from high school and working a part-time job. The salesperson at the stereo shop told her that she can charge the rest on a credit card. Chris went home to think about it. Her brother told her that it was a good idea, but Chris didn't have a credit card. She didn't even know how to get credit.

Read further to see how someone like Chris can learn about credit. (Story continued on page 4.)



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CREDIT FACTS & FICTION QUIZ
OBTAINING CREDIT
THE CREDIT CONTRACT
MAINTAINING GOOD CREDIT
IF YOU ARE
DENIED CREDIT

CREDIT FACTS & FICTION QUIZ

The Cost of Credit

It is no secret, using credit will cost you money. You will have to pay interest on your credit balance and may have to pay an annual fee for a credit card. Also, most companies will charge you extra for late payments and if you spend more than your credit limit.

What is Credit?

Credit is the opportunity to get something now and pay for it later. How you use credit is tracked by a Credit Reporting Agency (CRA). The file they compile on you, your credit report, will determine whether you get credit and the interest rate you will be charged for credit.

Do you think that you might like to buy a car, go to college, or take a trip faraway? If so, right now is the time to be considering the ins and outs of credit. Most people will need some type of credit to reach their life goals. Take the following “Credit Facts and Fiction Quiz” to see how much you already know about credit.

FACT FICTION

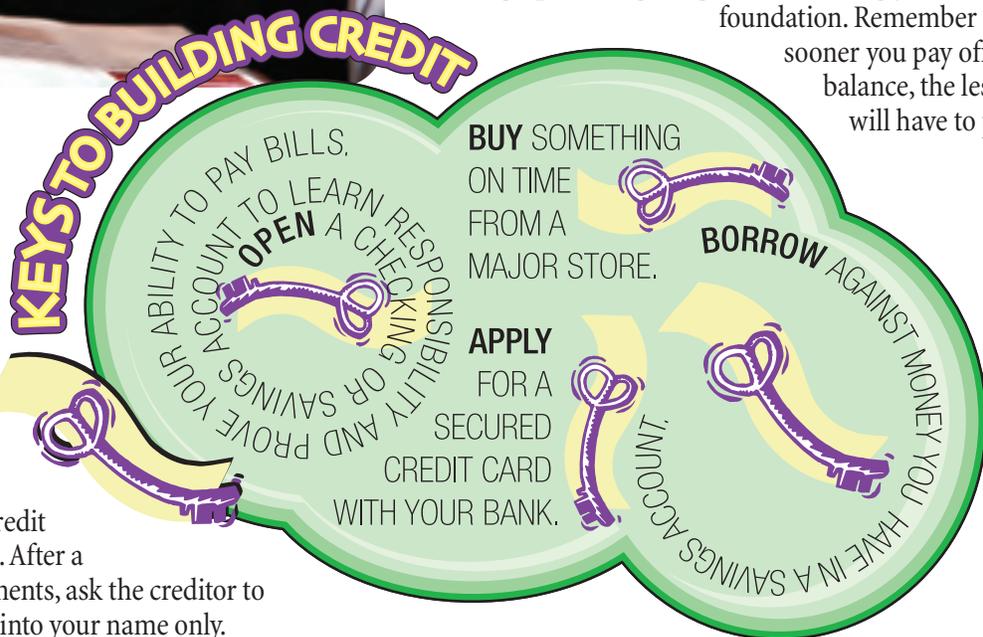
- 1. As a high school student working at your first job, you have probably built a credit history.
- 2. Taking out a loan is a good idea because it will give you the money you need to buy what you want right now.
- 3. You must be 18 years old to obtain credit in your own name.
- 4. If you are using credit, you are actually using someone else’s money.
- 5. Credit usually costs you money.
- 6. You will have to sign a “legally binding” contract to use credit.
- 7. It is illegal to be denied credit because of your sex or race.
- 8. It is important to have a good credit history because employers and landlords may use your credit history when deciding whether to hire or rent to you.
- 9. All financial institutions charge the same interest and offer the same types of credit.
- 10. Your credit report contains personal information about your behavior obtained from your neighbors.

answers on page 6



Obtaining Credit

When you apply for credit, the one question all lending intuitions will try to answer is: Are you creditworthy? They decide if you are creditworthy based on your ability to meet all your financial obligations, your savings and assets, your employment history, and your past financial history. While you cannot receive credit in your own name until you are 18 years old, it is a good idea to start proving your financial responsibility before applying for credit. Remember that building creditworthiness is a process that takes years. By starting now, you will be able to get credit when you need it. The “Keys to Building Credit” graphic is a good guide to building your credit foundation. Remember the sooner you pay off your balance, the less you will have to pay.



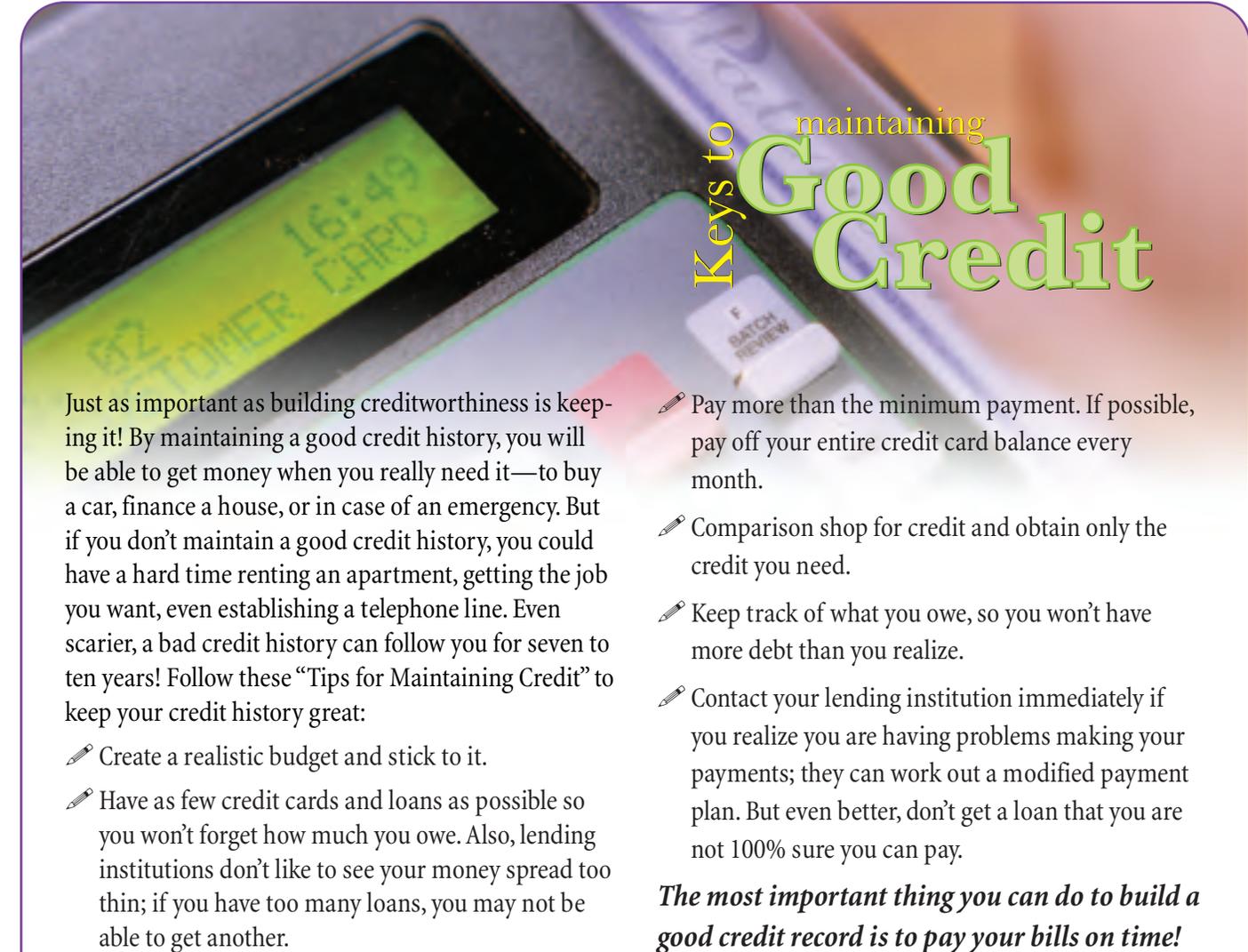
If these steps don't work, consider asking a responsible relative with a good credit history to cosign a credit application with you. After a year of making payments, ask the creditor to transfer the account into your name only.

The Credit Contract

When a lending institution or company decides to give you credit, they will require you to sign a legally binding contract. This contract will provide all of the details of your agreement. Items that may be found in your contract include:

- ☐ The amount of money they loaned you
- ☐ The amount of your down payment, if you give one, and the remaining balance
- ☐ The amount of the finance charge—the percentage of interest that is charged over a billing period
- ☐ The annual percentage rate—the percentage of interest that is charged over a year
- ☐ Any other charges included
- ☐ The number, dollar amount, and due dates of payments
- ☐ The charge for a late payment
- ☐ A description of the collateral held by the lending institution—an item of value, like a car, that you will give the lending institution if you cannot pay your loan.

If you do not like the details of the agreement, you do not have to sign the contract. Someone with a good credit history should help you look it over. However, once you sign the contract you are legally obligated to fulfill your financial responsibilities.



Keys to ^{maintaining} Good Credit

Just as important as building creditworthiness is keeping it! By maintaining a good credit history, you will be able to get money when you really need it—to buy a car, finance a house, or in case of an emergency. But if you don't maintain a good credit history, you could have a hard time renting an apartment, getting the job you want, even establishing a telephone line. Even scarier, a bad credit history can follow you for seven to ten years! Follow these “Tips for Maintaining Credit” to keep your credit history great:

- ✎ Create a realistic budget and stick to it.
- ✎ Have as few credit cards and loans as possible so you won't forget how much you owe. Also, lending institutions don't like to see your money spread too thin; if you have too many loans, you may not be able to get another.

- ✎ Pay more than the minimum payment. If possible, pay off your entire credit card balance every month.
- ✎ Comparison shop for credit and obtain only the credit you need.
- ✎ Keep track of what you owe, so you won't have more debt than you realize.
- ✎ Contact your lending institution immediately if you realize you are having problems making your payments; they can work out a modified payment plan. But even better, don't get a loan that you are not 100% sure you can pay.

The most important thing you can do to build a good credit record is to pay your bills on time!

Chris's Sound System (Cont.)

Money T@LKS. Chris, how did you learn about credit?

Chris: I talked to my mom. She told me that credit is a promise to pay something back to a creditor who loans you money and that because I was just starting out I should try to establish credit by getting a gas card or store credit card.

Money T@LKS. So... what was the first thing you did to establish credit?

Chris: I got a card with AA Gas Station and have been making payments regularly on it to establish my credit. I have paid the bill on time for the last six months.

Money T@LKS. Did you ever get a new sound system for your truck?

Chris: Actually, I am thinking about moving out of my mom's house and moving into an apartment with some friends from college using the money I was going to use for my sound system. Now that I have established credit, hopefully, the apartment manager will see that I pay my bills on time and rent me an apartment.





If You Are **Denied Credit**

What if you do everything you can to build your credit worthiness and you are still denied credit? Sometimes you just need persistence, try another lending institution or keep using your local business credit card and try again in a couple months. Also you should look at your credit report, which lending institutions, employers, and landlords access to view your credit history when reviewing your application. This report generally contains identification and employment information, payment history, a record of who has accessed your report, and public record information. If you were denied credit, you can request a free copy of your credit record from the lending institution or Consumer Reporting Agency. Check your credit report for inaccuracies, which may have affected your ability to get credit. Also look to see if there is any accurate negative information; if you made a mistake before, you can start to fix it now! Remember everyone makes mistakes but if you follow the “Keys to Maintaining Good Credit” (page 4) you’ll be on your way to a good credit history.

Should You Even Have Credit?

This is a question only you can answer. A lot of people use credit poorly and find themselves in financial trouble, which can follow them for up to ten years, especially when they have many credit cards or lines of credit. It is important to be able to track spending carefully and know how much debt you can handle to avoid spending more money than you realize. If you are not ready for credit, saving for purchases can help you learn to track your money.

Answers to the Credit Facts & Fiction Quiz



- 1. FICTION** If you are still in high school or working at your first job, you will probably find it hard just to get credit. It takes a long time to build a credit history, especially a good one. But don't worry, read "Obtaining Credit" on page 3 to find out how to start building good credit now.
- 2. FICTION** If you get credit to buy everything you want now, you'll be shocked when it is time to pay it all back and might even find yourself in financial trouble. Read "Maintaining Good Credit" on page 4 to learn how to keep a good credit history.
- 3. FACT** Until you are 18 years old you cannot enter into a contractual agreement. In other words, you can't get credit in your own name. From age 18 to 21, you must be able to prove income independence or have a cosigner in order to get credit.
- 4. FACT** When a lending institution gives you credit, they are letting you borrow their money. You are expected to pay it all back plus interest or a fee.
- 5. FACT** The lending institution that gives you credit is running a business, which means they are making money. They make money by charging you a fee or interest to use their money.
- 6. FACT** To make sure you pay back all the money you borrow, your lending institution will require you to sign a legally binding contract. Read "The Credit Contract" on page 3 to find what is in this contract.
- 7. FACT** The Equal Credit Opportunity Act prohibits such discrimination.
- 8. FACT** While not everyone can obtain a copy of your credit history, employers and landlords can. They often use this information to determine your character and your likeliness to pay your rent or act responsibly at a job.
- 9. FICTION** Charges for credit and credit offers vary among financial institutions. It is a good idea to speak to various institutions to find the best credit option for you.
- 10. FICTION** Your credit report contains identification and employment information, payment history, a record of who has requested your report, and public record information. Credit reporting agencies are not permitted to include gossip in your report.

Money Talks...Should I Be Charging? is a series of two newsletters designed for teens. The goals of these newsletters are to assist teens in understanding how credit works and how to maintain good credit, how to obtain credit, what to do if they are denied credit, safety tips when using credit cards, and how to avoid credit card scams. Comments regarding these newsletters can be addressed to: Consumer Economics Department, University of California Cooperative Extension (UCCE), 135 Building C, Highlander Hall, Riverside, CA 92521. Author: Katherine Wassenberg, freelance writer; Development Team: Margaret Johns, Charles Go, Shirley Peterson, and the UCCE Money Talks Workgroup; Graphic Designer: Kerry Decker, UC Riverside. 2006



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