

BUILD A SOLID CREDIT HISTORY



WHAT IS CREDIT?

Credit is money that you borrow, usually in the form of a credit card or loan, with the promise to pay it back.

Why is it important to have “good” credit?

There are three companies, Equifax, TransUnion, and Experian, that track your record of repaying your credit cards and loans over time. Your payment history is centralized in a document called a **credit report**. Companies use the information in your credit report to calculate a **credit score**, which they then use as a quick and easy way to assess whether you will pay your bills on time. Your credit history or score can affect:

- Your ability to secure a loan for a home, car, school tuition, or small business
- Your ability to obtain a credit card
- Whether you are approved to rent an apartment
- Potential employment
- Your monthly and total auto or homeowners insurance payments
- Your interest rate on your credit cards and loans, which can also affect your monthly and total payments

	GOOD CREDIT	POOR CREDIT
AUTO LOAN AMOUNT:	\$15,000	\$15,000
TERM:	4 years	4 years
INTEREST RATE:	6%	12%
YOUR MONTHLY PAYMENT:	\$353	\$395
TOTAL INTEREST PAID:	\$1,944	\$3,960
YOUR TOTAL PAYMENT:	\$16,944	\$18,960

The individual with a “good” credit score has a monthly payment of only \$353 and will pay \$1,944 in interest over the four-year term of the loan. The individual with “poor” credit pays \$395 per month and will pay \$3,960 in interest over the four years.

REMEMBER

Before shopping for a car, home, small business loan, or a credit card, you should find out what the average interest rate is. You can consult your local newspaper, a reliable website like www.bankrate.com, or your local bank or credit union.

How do I establish credit?

It can be challenging to establish credit when you do not have a credit history. Many credit card companies or lenders will not extend credit to you. Others may offer you credit with high interest rates and fees attached.

Steps to establishing traditional credit history:

STEP #1: Open a checking and savings account at a bank or credit union to establish a relationship with a banking institution. Shop around for a free or low-cost checking and savings account.

STEP #2: Apply for a **secured** credit card from a banking institution. A reputable card will report your payments to all three credit bureaus and refund any application fees if you are denied.

SECURED VS. UNSECURED CREDIT

A “**secured**” credit card is a Visa or MasterCard that is secured by a deposit from you into a savings account. Your credit limit depends on the amount that you have deposited into your savings account. An “**unsecured**” credit card offers credit that is not secured by your savings. Your credit limit will vary based on your credit score. Unsecured credit cards are more commonly used, and they include department store, gasoline, and bank-issued credit cards.

STEP #3: Use your **secured** credit card wisely. Use the card to pay for items you normally purchase. Pay your credit card bill on time every month. Pay your balance in full every month or, at minimum, keep the balance below one-third of your credit limit.

For example, if your credit limit is \$300, you should keep your balance below \$100.

STEP #4: Once you have used your secured credit card for six months, you should start shopping around for an **unsecured** credit card. A secured credit card is a great way to establish credit, but an unsecured card can offer lower interest rates, less fees, and a larger line of credit that is not secured by your savings.

STEP #5: Once you have established a record of being able to handle debt and pay your bills on time, you should move on to installment loans. Consider financing your car or other personal items with a small installment loan from your local bank or credit union.

Tip: The car dealership may offer you a loan to finance your car, but you should compare their offer with a loan from a bank or credit union; you may end up saving a lot of money.

What is the difference between credit approval and my affordability?



Once you are approved for a credit card or a loan, you will receive a formal offer of credit that includes the amount for which you are approved.

Warning: Just because the lender approves a large sum of money for you to borrow, does not mean that you can afford to borrow the entire amount. In fact, the lender's decision does not take into account bills that are not included in your credit report, such as day care, car insurance, and groceries. You should carefully consider your family's budget before you decide how much to borrow.

REMEMBER

The more money you borrow, the more money the lender earns; it is in their interest to encourage a higher amount of spending. Before you take a loan or credit card, review your family budget and have a clear understanding of what you can afford.

Is this the only way for me to build a credit history? **NO.**

- You can also start by applying for a department store or gasoline credit card, but you should be very careful about high fees and interest rates, which are common with these cards.
- Some people skip credit cards and go straight to applying for a car or even a home loan. While this is possible, you may pay a higher interest rate and fees than if you had an established credit history.

How do I know if I'm getting a good deal?

Use this comparison chart when you are shopping for a credit card. Look for a card with low fees, low interest rate, and low annual percentage rate (APR).

Warning: Beware of promotional rates. Many credit card companies offer a very low APR when you initially apply for the card. After a few months, your APR will adjust to a rate significantly higher than the promotional rate. For example, some companies offer an introductory rate of 0% and after six months the APR can go up to 18% or more. This means you will pay a very high rate for the remaining balance on your credit card.

	Credit Card #1	Credit Card #2	Credit Card #3
Introductory APR: This is the APR that you will pay during a short period of time (introductory period) when you first sign up for a card. This rate is usually very low to lure you into signing up for the card.			
Introductory period: This is the set amount of time for which that you are offered the introductory APR—six months or sometimes one year. However, if you pay your credit card bill late, your low interest rate may increase drastically before your introductory period is over.			
Permanent APR: This is the APR you will be charged after the introductory period is over. It is very important to know what this rate will be because you will be paying this rate monthly after the short introductory period is over.			
Annual fee: The credit card company charges this fee once per year for its services. This is in addition to interest that you pay every month. Look for a card that does not have an annual fee or has a very low fee.			
Late fee: This fee is charged if your payment does not reach the credit card company by the due date.			
Over-the-limit fee: You must pay this fee if you charge over the amount of your credit limit.			
Grace period: This is the amount of time before a payment is due and interest is charged.			
Security deposit: This is the amount of funds that you need to have deposited in the bank to secure the credit card. This is only for secured credit cards.			
Application fee: This fee is charged when you apply for the credit card. Find out whether this fee is refundable if you are denied the credit card.			

FAQs

How do I know if I have a credit history and score?

If you have had a credit card or loan for more than six months or you have had a bill sent to collections, you will probably have a credit history and score. It is important to review your credit report to check for errors and identity theft. Please consult the **List of Resources** in this brochure to learn how to pull a free copy of your credit report.

What if I don't have a credit score?

Many people that have not used credit cards or financed a car do not have a traditional credit history and score. If you paid off a credit card or loan some time ago, then you may not have a score either.

Can I get approved for a credit card or loan if I do not have a credit score?

Some lenders accept “non-traditional credit”—your record of on-time payments for rent, utility bills, cell phone, cable, and car insurance. Non-traditional credit does not appear on your credit report. Although it is common to start out with nontraditional credit, it is better to establish a solid, formal credit history and score.

Credit Scores
750 and above – Very good
620 to 749 – Good
619 and below – Poor

Warning: Be very cautious about cosigning for a family member or friend. If you have established a good credit score, it will be easy for you to be approved for credit cards, loans, or an apartment. A family member or friend with poor credit or no credit may ask you to cosign for them so that they can be approved. Just remember, your credit history will be damaged if they do not pay that account on time every month.

Glossary of Terms

- **BANK:** This is a federally regulated financial institution that offers you a place to keep your money and uses it to make more money. Banks make loans, cash checks, accept deposits, and provide other financial services.
- **COSIGNER:** A cosigner is an individual who signs a loan or credit application with another person and promises to pay if the primary borrower does not pay.
- **CREDIT UNION:** A credit union is a federally regulated cooperative financial institution that is owned by the people who use its services. Credit unions serve groups that share something in common, like where they work, live, or go to church. You have to become a member of the credit union to open an account.
- **FEES:** This is the money that a financial institution charges, such as a monthly maintenance fee, for various services.
- **INSTALLMENT LOANS:** This type of credit must be repaid over a specific period of time with fixed monthly payments. Examples of installment accounts may include loans to finance a car, furniture, tuition, or a home.

INTEREST RATE VS. ANNUAL PERCENTAGE RATE (APR)

Interest rate is a fee charged as a percentage of the amount you borrow. The APR tells the annual cost of borrowing money based on the loan amount, interest rate, added fees, and term; thus, it may be higher than an advertised interest rate

- **JOINT ACCOUNTS:** Joint accounts are credit accounts which are held or owned by two or more persons. In the case of a joint account, all parties are held equally responsible for payment under the terms and conditions of the loan contract.
- **REVOLVING CREDIT:** This is a type of credit account that gives you the option to pay your debt in full each month or make monthly payments. Examples may include department store, gas, and bank-issued credit cards.

List of Resources

- **AnnualCreditReport.com** is a service for consumers to request **free** annual credit reports. You can request your credit report by visiting www.annualcreditreport.com or by calling (877) 322-8228. You are entitled to a free credit report once a year from each of the three credit bureaus—Equifax, TransUnion, and Experian. This report does not include your credit score. You can purchase your credit score for a fee of approximately \$7 from each credit bureau.
- **Consumer Action** is a nonprofit organization that serves consumers nationwide by advocating for consumer rights, referring consumers to complaint-handling agencies, and publishing education materials in Spanish, English, Chinese, Korean, and Vietnamese. Visit www.consumer-action.org or call (415) 777-9635 or (213) 624-8327.
- **Federal Trade Commission** works to prevent fraudulent, deceptive, and unfair business practices for consumers and provides information to help consumers spot, stop, and avoid them. Visit <http://www.ftc.gov/bcp/index.shtml> or call (877) FTC-HELP (877-382-4357).
- **National Council of La Raza** provides information on community and family wealth-building for Latinos. Visit www.nclr.org/credit or call (202) 785-1670.
- **National Foundation for Credit Counseling** member agencies provide a variety of services, including budget counseling and education, debt management plans, counseling referral services, financial literacy courses, and housing counseling. Visit www.nfcc.org or call (800) 388-2227.
- **U.S. Department of Housing and Urban Development** sponsors housing counseling agencies throughout the country that can provide free advice on buying a home, renting, credit issues, and foreclosure prevention. Visit www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm or call (800) 569-4287.



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