



New credit

Do you know how to play your cards right?

In most card games, someone invites you to join in, and 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 one very important difference: You are the only person in the game. If you manage your credit well, you can't lose.

Getting in on the credit game

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

But there are risks. Poorly managed credit can drive you deep into debt. Getting back in the game isn't 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. The lender sets up a payment schedule, 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 can 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.

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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 membership) 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. Accounts with service providers and the associated payment history are appearing more commonly on credit reports. Unpaid bills almost always are 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):** 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, getting 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 — but 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 includes not only 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 include your account number or other identification details, 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, it's recommended to purchase a credit score. The score and the information that accompanies it will give you a better understanding of where you are in terms of general credit risk and provide information about which factors in your credit report are affecting your credit scores the most. You then can act on that information to increase your creditworthiness.
- Adding positive rent payment history enables you to build a new or stronger credit history simply by paying your rent or lease on time. Incorporating rent payments in the credit report will give lenders additional information upon which to base a decision, opening the door to credit for many who would otherwise be unable to qualify without a cosigner. To learn more about the services and how you can have your rent payments reported visit www.experian.com/rentbureau/rental-payment.html.

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