



Credit or Debit?—What Should I Do?

You can use a credit card or a debit card just about anywhere you go. In fact, many locations won't accept checks any more, leaving you with only two options—use a card or carry a lot of cash. While both are susceptible to theft, if you lose a credit or debit card, you can call the financial institution and report it immediately, thus preventing you from sustaining a big loss. If you lose cash, well, you're just out of luck the majority of the time.

But when is the best time to use a debit card and when is the best time to use a credit card? Here are a few things to think about that will help you decide.

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What Is a Credit Score?

A credit score is a little, three-digit number that tells the world a great deal about you before they even look at your credit report. Sometimes you see your credit score called an FICO score. That's because FICO is an abbreviation for Fair Isaac and Company, the company that developed the method used by most people to calculate what your score is.

Credit scores were designed to help lending institutions go through the loan review process faster and decide on risk more accurately. Retail merchants, credit card companies, insurance companies, and banks have used scoring methods since the 1950s for deciding whether or not to make consumer loans. Credit scoring is also used by mortgage lenders. When you apply for credit, most potential lenders will request a copy of your credit report and your credit score from one or more of these credit bureaus. Lenders use the results of the FICO credit bureau score to determine specific reasons for approving or not approving your loan. You should know that the only information used to determine your credit score is the information in your credit file. Your income, savings, and the amount of money you have for a down payment for a mortgage do not affect your score.

Your score can be anywhere between 300 and 850. Research studies done by lenders indicate that people who have scores higher than 680 are more likely to make their payments on time. People who have scores lower than 600 generally make payments late and are a higher risk for paying back the money they borrow. Your credit score is important because it can affect your ability to buy a car, a home, insurance, or rent an apartment, and can also impact your ability to get some jobs. There are three major credit bureaus in the United States—Experian, Equifax, and TransUnion. Because they each calculate your score a little differently, your score will vary slightly with each bureau.

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Have a Movie Night!

Here's something you might want to watch for at your local movie theater. It's also being shown at local libraries and universities in some areas. It might help you make some decisions about your money management.

In Debt We Trust, directed by Danny Schechter

WHILE MANY AMERICANS MAY BE "MAXING OUT" ON CREDIT CARDS, THERE IS A DEEPER STORY: POWER IS SHIFTING INTO FEWER HANDS... WITH FRIGHTENING CONSEQUENCES.

In America's earliest days, there were barn-raising parties in which neighbors helped each other build up their farms. Today, in some churches, there are debt liquidation revivals in which parishioners chip in to free each other from growing credit card debts that are driving American families to bankruptcy and desperation. In *Debt We Trust* is the latest film from Danny Schechter, director of the internationally distributed and award-winning *WMD* (Weapons of Mass Deception). The Emmy-winning former ABC News and CNN producer's new hard-hitting documentary investigates why so many Americans are being strangled by debt. It is a journalistic confrontation with what former Reagan advisor Kevin Phillips calls "Financialization"—the "powerful emergence of a debt-and-credit industrial complex."

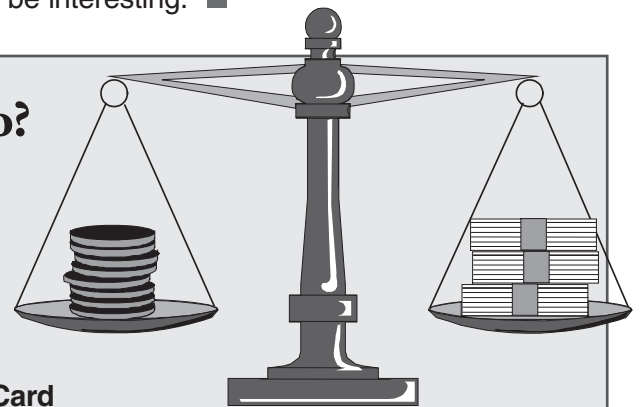
Could be interesting. ■

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Credit Card

1. The bank or credit card company sends you a statement at the end of every month, which you then have to pay. Hopefully, you've kept enough money aside to do so.
2. If you can't pay your total balance when you receive your statement, you have to pay interest until the balance is paid off.
3. If a person or merchant makes a charge on your card that he is not entitled to make, federal law says you are only liable for \$50 of that amount as long as you notify the bank or credit card company within 60 days of the charge.
4. Purchases you make with a credit card are usually insured. This is particularly helpful if you order something that has to be shipped. Make sure you check this benefit with your credit card company so you can avoid paying twice for insurance when shipping.
5. If you pay your bills on time and don't carry a large balance, you can build a good credit history and improve your chances of obtaining a loan when you're ready to make a big purchase like a car or home.
6. Credit cards can make sense for making large purchases that take several months to pay for as long as you get a reasonable interest rate. An even better solution is to save up for the purchase before hand.



Debit Card

1. When you use your debit card, the money is taken directly out of your checking account. You don't have to worry about holding on to it until you get your statement.
2. There is no interest because there is no balance to carry over.
3. If a person or merchant uses your debit card to make a purchase they are not entitled to make, you must notify the bank within 2 days. If you wait more than 2 days, your liability becomes \$500 instead of \$50. Some banks are generous and allow you a longer period of time, but be sure you check with your bank to see what the time period is for you.
4. Purchases you make with a debit card are usually not insured.
5. If you avoid having a lot of overdrawn charges on your account, you will improve your relationship with your bank, which can help you when you apply for a loan. However, debit card use will not affect your credit report.
6. Debit cards are better for everyday purchases as they help you avoid accumulating debt.

What Is a Credit Score? (cont.) *Continued from page 1*

FFEF offers a Credit Score Review which includes a three-in-one report from each of the credit bureaus listed above. This quality report has FICO credit scores and is the same report used by mortgage companies, banks, and other lenders. The Review will teach you how to improve your credit score and how to dispute any errors. A certified Credit Report Reviewer will counsel with you and review your credit report line by line. This is NOT credit repair.

What Gives Me a Bad Score?

- Late payments
- Too many accounts opened in the last year
- Short credit history
- Balances on revolving credit (e.g., store credit cards) are at or near the maximum
- Public records show you have tax liens, judgments, or bankruptcies
- No recent credit card balances
- Too many recent applications for credit
- Too few revolving credit accounts
- Too many revolving credit accounts

As you can see, you need to have good credit to get credit. One or two credit cards with a balance of about 50% of the available balance and no late payments will help you improve your score. After all, if you've never borrowed money, the bank won't know how well you would do with paying it back. To get a better credit score or FICO score:

- Pay your bills on time
- Keep credit balances low on one or two cards
- Apply for new accounts only if absolutely necessary

Legally Yours

The Fair Credit Reporting Act means that the law is on your side if you can prove that the information on your credit report is false, and it is not removed. You are entitled to actual damages, plus the court may allow additional damages if the violation is proved to be intentional.

You can also sue any credit-reporting agency or creditor for breaking the rules about who may see your credit records or for not correcting errors in your file. Someone who gets your credit report without proper authorization or who gives your report to unauthorized persons can be fined up to \$5,000.

But remember, there are a lot of people who can see that report legally, including anyone to whom you apply for a loan or credit. So be careful when applying for credit. When the companies you apply to check your report, they can see who else has been checking your report and determine what, when, and how you have been applying for credit. That means that if you have been turned down by someone else, potential lenders will know. ■

Safety Tips for Your Credit and Debit Cards

- Report lost or stolen cards immediately.
- Sign the signature panel on the back of the card as soon as you receive it.
- Never let your cards out of your possession or control.
- Did you know that a large number of credit card thefts are from car glove compartments? Never leave yours in there.
- Don't let anyone else use your cards, not even your family or friends.
- Memorize your PIN (Personal Identification Number). Pick something you can associate the number with to help you remember it so you don't have to write it down, but avoid picking a number that would be easy for someone to guess, e.g., your name, telephone number, or birthday.
- Don't tell anyone else your PIN. There is no one else who needs to know it, not even your bank, the police, or a merchant.
- Make sure the cashier or sales associate returns your card to you after every purchase.
- Always check the sales receipt to make sure that it is for the correct amount before you sign it.
- Keep copies of your receipts, including ATM (Automated Teller Machine) receipts, then check your billing statement to make sure the amounts match. If there are any charges that you did not make, notify your bank or credit card company immediately.
- Read your credit card agreement and billing statements carefully for the policies regarding dispute notification requirements. You may be required to send any dispute in writing to have it resolved. ■

Let's Practice:

When you get a new credit card or about once a year on an open account, your credit card company will send you a pamphlet full of fine print about your account. This is where you find the important information about changes in interest rates.

Find this pamphlet for one of your credit cards. You didn't keep it? Go online and visit the website of your credit card and see if the information is posted there. If you still can't find it, call the Customer Service number on the back of your card and ask them to send you a current copy.

Once you have the pamphlet, look for the information about interest rate increases. It might take awhile, but stick with it until you find it. Once you've found it, read it carefully and highlight it for future reference. Are you in danger of having your interest rate increased? If so, how much will it increase?

While you are at it, write down the phone number you need to call if your credit or debit card is lost or stolen and put it in a place where you can access it easily. After all, if your card is stolen, you won't be able to look on the back for the number. ■

What Every Credit Card User Should Know

Just in case you thought you were safe if you pay on time and don't carry a balance, here are a few things you should know.

1. The bank or credit card company can raise your interest rate automatically, even if you make your credit card payments on time IF you miss a payment on another account, even something as simple as a phone bill.
2. Credit card issuers are not limited in what they can charge you as a late payment fee. A court case in 1996 resulted in restrictions on penalty fees being lifted. Scary! Now you know why that late fee keeps getting higher and higher. Some say it will go as high as \$50.
3. Credit card issuers are also not limited on the interest rates they can charge. If you notice that your payment address is in another state like South Dakota or Delaware, it's because certain states have no limit on interest rates. By locating in those states, credit card companies can raise their interest rate as high as they want. Only competition from other companies keeps it in check.
4. Read the fine print. Your credit card agreement says the company can change your interest rate at any time and for any reason as long as they give you 15 days' notice. The fine print can be very hard to read. Credit card agreements have become more and more intensive. It's important that you look for key information. If you can't find it, have someone help you.
5. Credit card debt makes you more susceptible to bankruptcy. Bankruptcy is usually the result of sudden job loss, divorce, or medical emergencies. Loss of income soon lands those with credit card debt in a bankruptcy situation.

The truth is, while credit cards can seem like a lifesaver when things get rough, they can quickly pull you under. Be really careful when deciding to take on credit card debt. ■

FFEF Credit Score Review

SPECIAL RATES

\$19.00 Single or \$29.00 Joint for a one-time review of your 3-in-1 Report. Includes review of your credit report and advice on how to dispute errors.

Or

\$29.00 Single and \$39 Joint for CreditScore Review and counseling for an entire year. There is an additional monthly fee of \$10 for counseling or a discounted fee of \$100 if you pay it upfront. Credit reports are pulled at beginning and end of year.

Price good through June 30, 2007 if you mention you read about this special in the newsletter.

Family Financial Education Foundation

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