BUILDING YOUR CREDIT FUTURE:

A GUIDE TO RESPONSIBLE CREDIT CARD USE

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Buying a car.
Paying bills.
Purchasing a home.
Starting a small business.
Paying for college.

Your journey through life is full of financial stepping stones. From small goals to big achievements, everyday decisions tie directly back to the way you manage money. When it comes to achieving those big goals, you need to understand one big concept: **CREDIT.**

Lenders across the country want to work with people who have "good credit." It's a term that represents your financial behavior and shows credit unions how trustworthy you are when it comes to lending. Credit is a necessary ingredient in your recipe for financial success, but Americans have done a good job embracing bad credit habits.

Statistics show, ***Americans collectively hold more than $1 trillion in credit card debt.*** Extreme, right? But this comes from a long history of irresponsible credit card management and a culture of consumerism engrained in our spending habits. In a world where we're asked to buy something almost everywhere we turn, how can we balance our spending? How can we bring intention to our purchases? How can we better plan for the future? And (in some cases) how can we say Yes to "good" debt and no to other debt?

In this guide, discover how the right credit card, with the right plan, can help you:

- Boost and understand your credit score
- Build your credit
- Reach financial goals
- Embrace sound financial behaviors

THE RECIPE FOR *FINANCIAL SUCCESS*

Credit history

Emergency savings

Retirement strategy

Giving plan

Balanced spending

General savings

THE CREDIT CARD
Break Down

CREDIT
Noun | cred·it

1 : reliance on the truth or reality of something

2 a: the balance in a person's favor in an account

b: the amount or sum placed at a person's disposal by a bank

c: the provision of money, goods, or services with the expectation of future payment

Hidden inside your credit card agreement are frequently unknown terms and rules. It's important to fully understand the lingo in your agreement and structure of your card. Review the important components below:

INTEREST RATE

This is arguably the most important aspect of your credit card. The interest rate is the percentage of money you'll owe on top of your balance if you don't pay it down to zero each month. Carrying a balance is a common practice throughout the country. *Reports show* that only 35% of Americans pay down their credit card bills to zero each month. With the average credit card interest rate sitting at 15%, it can take years for balance holders to pay down what started as a relatively small loan.

CREDIT LIMIT

Every card carries a maximum amount of money you can spend. Many credit card companies are good at increasing your limit when they see you're paying down the balance. Don't let limit increases fool you. Maxing out a credit card – or charging the limit of the card – is a bad practice, especially if you can't pay down that cost when the monthly bill arrives. A big percentage of your credit score is influenced by your credit utilization ratio – a term that reflects how much credit you're using compared to how much is available.

APR

This commonly used term stands for Annual Percentage Rate, which is the amount of annual interest you'll pay on your loan including any other cost or fees. Usually expressed in a percentage, this term is especially useful when comparing credit cards because you can see how expensive a transaction would be on one card versus another, fees and all. In short: Two credit cards can have the same interest rate, but if one has additional fees, the APR for that card would be higher than the card without fees.

FINANCE CHARGE

This term refers to any fee you may incur including interest charges and late fees. If you missed a credit card payment, for example, you may see a small charge on your account called a "finance charge." Credit card companies have different methods of calculating the cost of this charge. If you have a balance on your card past the due date of your bill, you'll likely see an interest charge and fees listed on your statement (yet another reason to pay down your balance each month).

Your Credit Score

Everyone says you should have good credit, but why? What difference does a credit score make—and what's in it for you? In the most basic terms, a credit score is a 3-digit number that shows lenders how risky (or not) you are to lend to. When you manage your credit card wisely, you have an opportunity to boost this score.

In simple terms: if you pay down loans and credit cards monthly, your score may go up. If you are late to make payments, have a lot of debt or frequently open and close credit cards, your score will most likely go down. The score range that dictates what's "good" and "bad" varies, but most lenders would consider a score of 700 or above to be generally good.

Pay attention to your credit score if you:

- Are preparing to apply for a loan.
- Want a low interest rate on the loan you're applying for.
- Are trying to get approved to rent a home, apartment or condo.

In addition to those reasons, maintaining a good credit score is a financial management best practice. You never know when you may need it. Some employers, utility companies, insurance agencies and even cell phone carriers care about your score.

WHAT *DOESN'T IMPACT* YOUR CREDIT SCORE?

Age • Race

Religion • Gender

Marital status

Where you live

Current interest rates on your outstanding credit

According to FICO, there are many factors that are calculated to determine your credit score:

35%
PAYMENT HISTORY: The history you have established of making payments on time (or not).

30%
AMOUNT YOU OWE: Review all your credit cards and/or loans. How much do you owe collectively?

15%
LENGTH OF CREDIT HISTORY: When did you get your first credit card or loan? How long have you been making payments?

10%
NEW CREDIT: Have you recently opened any new cards?

10%
TYPES OF CREDIT: Rental data, mortgage payments, retail cards, gas station cards – there are many types of credit you can take on. A good mix of credit appears "less risky" to lenders.

CREDIT CARD
Best Practices

When it comes to understanding credit, and implementing a credit card management plan that works, it's important to start at the beginning with basic guiding principles:

1. Define your credit card reason. In other words: Why do you want a credit card? There are many reasons for credit card use, but not every recommended reason will help you bring balance to your financial journey. Consider the reasons below, understand your purpose for owning a credit card, and charge with that reason in mind.

- Build credit history
- Earn rewards and points
- Get cash back
- Receive extra fraud and identity theft protection.

2. Remember, it's credit. Today it's easier than ever to spend using a credit card. We can pay via credit card from virtually anywhere, including phones and even our fingerprints. Despite new access to payment, one thing remains unchanged: the money you spend via credit card should align with your credit card reason. If you're working to earn cash back, use your card knowing that you'll pay down your balance every month. If you're trying to build your credit history, use your card for purchases that are part of a larger spending plan. Be intentional when you charge, and honor the reason you opened the credit card in the first place.

A WORD OF CAUTION: *Don't let the sign-on bonus or rewards structure solely dictate the type of card you get. Consider the card's annual fees in addition to the interest rate (which may be higher for some cards with attractive rewards structures).*

3. Understand your card structure and lingo. Educate yourself on common terms like interest rate, APR, annual fee and minimum payment. Make sure you know your interest rate, due dates and card terms (like finance charges, annual fees and more). It may seem like common sense, but many credit card users get lost in jargon. If you don't understand what you signed up for, it'll be challenging to maintain good credit.

4. Pay down and on time. What's the easiest way to get caught up in tons of credit card fees? Miss a payment. Make sure you know when your credit card payment is due, and pay down your balance to zero each time. If you're unable to pay down your entire balance (at the very least) pay more than the minimum monthly payment.

DO YOU WANT TO USE A CREDIT CARD FOR A *LARGE, ONE-TIME EXPENSE?*

Be careful, this financial behavior often strands users with a big bill and lots of interest to pay each month. ***Double check your terms and see if your card has a low or no interest period as an introductory offer.*** *Be aware of that, and make a plan to pay it down by the time the offer is complete.*

Think through this decision methodically. *Are you ready to break down your one-time spend into monthly chunks? Do you have the cash flow to make a monthly payment? Are you willing to incur interest on the emergency or one-time spend?*

Before you take out a credit card, ***consider other credit options with your financial institution,*** *like a line of credit. Take your home, for example. It's your largest financial asset, and can be leveraged.* *Read on to discover when to use a home equity loan or line of credit.*

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