VERMONT

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How you manage your personal credit impacts more than just your monthly budget. Potential employers, landlords, and auto insurers are just some of the people who may ask to view your credit history.

**Don't trade convenience for fiscal peace of mind. Wise management of your credit cards will keep you from building debt that could threaten your financial future. The same thinking that goes into a cash purchase should apply to credit card transactions.**

# Credit: Managing Your Credit Card Spending

**Vermonters, like most Americans, enjoy the** convenience of using credit cards. However, the potential to overspend, cost of paying double-digit interest rates, and growing risk of identity theft are causing many people to carefully consider how they're using this financial tool. According to a report by the Federal Reserve, total U.S. outstanding revolving debt, chiefly made up of credit card balances, was $880.5 billion as of July 2014. Credit card debt nationwide has been declining. TransUnion reports that the average credit card debt per borrower fell from $6,276 in mid-2008 to $5,164 in the first quarter of 2014. In Vermont, average credit card debt increased in the second quarter of 2014 to $4,937 after averaging $4,850 in the second quarter of 2013--a 1.8% increase.

Key to eliminating credit card debt is to pay the bill in full when it comes in and avoid interest charges. However, if you cannot pay off the debt completely, always pay more than the minimum monthly payment.

## What is credit costing you?

**While it's convenient to use a credit card to pay for dinner out or gas for your car, if you don't pay the entire balance when you receive your bill these "small" purchases can grow into big bills. Interest rates on fixed-rate credit cards nationally average more than 12 percent. See how your bill can grow in the example below.**

**You owe $1,000 on a credit card that charges 18% interest. Paying off just an extra $10 to $30 a month will save you time and money.**

| MONTHLY PAYMENT | TOTAL INTEREST | TIME TO PAY OFF |
|---|---|---|
| $20 (minimum) | $862.10 | 7.8 years |
| $30 | $400.87 | 3.9 years |
| $50 | $197.82 | 2 years |

**Source:** *Ready or Not, Your Retirement Planning Guide, MEI Publishing Inc.*

## How is a Credit Score Calculated?

**A credit score is a rating** that credit reporting companies use to help lenders evaluate your ability to pay back what you borrow. The three main credit reporting companies are Experian, Equifax, and TransUnion and each has a different credit score. The reason each is different is because these companies do not share information and each may have a different set of information they are considering in calculating your score. Credit scores range from 300 to 850. The higher the score the lower the risk for the lender. A score of 680 or above is considered good. Here's a general guide to what is included in determining your score.

**35% Payment History:** pay on time, higher score; pay late, lower score.

**30% Current Credit Use:** if you've maxed out most of your credit lines, lower score; if you have unused credit on several accounts, best if using less than 50% of your credit line, higher score.

**15% Credit History:** the longer your demonstrated responsible use of credit, the higher the score.

**10% Credit Inquiries & New Credit:** lenders may view too many inquiries to your credit report as an indication you are struggling financially and intend to go into greater debt.

**10% Credit Mix:** demonstrated use of different types of credit gives you a higher score.

You may buy your scores directly through www.myfico.com or through the individual reporting agencies.

**Source:** *CardRatings.com "On the Path to a High Credit Score"*

## Four "Cs" of Creditworthiness

In extending someone credit, lenders typically consider what is called the "4 Cs of Credit" – collateral, capital, capacity, and character. Collateral and capital are those items you own of value that could be taken from you or sold in the event you do not pay your bill. Capacity and character examine your ability to repay a loan and includes such things as your employment history, income, and history of paying bills. (For more, see How a Credit Score is Calculated in the box on the first page.) Just making the minimum monthly credit card payment doesn't necessarily mean the card holder is managing this financial tool in the most advantageous way. In assisting people in paying off debt, credit counselors look for several danger signs.

## Credit Card Danger Signs

- **The person doesn't know the total amount owed.**
- **Credit cards are maxed out, meaning the person has used the complete line of credit available to him or her on each card.**
- **New accounts are being opened to pay old debt.**
- **The person has a negative net worth.**
- **The person has been denied credit.**
- **Creditors are starting to call about the debt.**
- **Family members are not aware of the truth about the total debt.**

## Build a Positive Credit History

While you can't "repair" your credit history, you can begin today to build a new track record of debt management that will positively influence your credit history. Lenders are reassured by a history of timely bill payment and a consistent pattern of personal savings. Limit the number of credit cards and loans you have. Maintain a low balance on one card and pay it off each month. Finally, devise a workable plan to live within your monthy income and avoid using credit for consumable items that are gone long before the bill is paid off.

## MORE RESOURCES

Free credit reports are available at the site below. It is sponsored by the three main credit reporting companies: Equifax, Experian, and TransUnion.
**www.annualcreditreport.com**

Free rate information for consumers on more than 300 financial products.
**www.bankrate.com**

Order your credit score at: **www.myfico.com**

National Foundation for Credit Counseling, a national non-profit network of accredited agencies aimed at helping consumers manage their debt.
**www.nfcc.org**

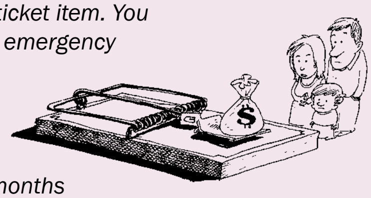
Toll-free opt out phone line to halt credit offer mailings to your home.
**1-888-567-8688**

# Keep Debt in Check

## 70-20-10 RULE

*There are always a lot of demands on family budgets. Unanticipated medical expenses, an unexpected car repair, or rising home heating fuel costs can quickly create financial pressure. While it's tempting to turn to credit cards to address such expenses, if you begin to financially plan now you can reduce your reliance on credit to handle emergencies.*

*A good guideline to follow is the 70-20-10 rule. In budgeting your monthly expenses, allot* ***70 percent*** *for living expenses such as rent or mortgage, food, utilities, clothing, and gasoline. Save or invest* ***20 percent*** *of your income for financial goals and emergency expenses. This 20 percent can be divided into retirement savings and savings for specific goals such as a vacation or to purchase a large-ticket item. You also can begin an emergency savings fund. A good long-term goal for this fund would be to save three to six months of living expenses in that account. Don't be disappointed if an emergency arises that causes you to withdraw some of the money--that's what it's there for. However, don't withdraw money for impulse buys. By getting into a saving mode you will find you rely less on credit and loans to make your purchases.*



*The remaining* ***10 percent*** *is dedicated to debt payments. This includes debt such as credit card payments, and car and student loans.*

*Following the 70-20-10 rule requires you to work to live within your means. If you must devote more money to living expenses, then you will have to reduce some of the funds dedicated to savings or debt payment. However, work to avoid spending more than your monthly income.*

### A word on credit-related record-keeping . . .

*Make sure to keep the following items in your financial files.**

- ***Terms of agreement:*** *a document that accompanies your loan application and defines the rights and responsibilities of the borrower and creditor.*
- ***Receipts:*** *you can compare charges when your bill arrives.*
- ***Monthly statements:*** *keep at least a year, and tax-related items for seven years.*
- ***A list of your credit card numbers*** *and the telephone numbers of each card issued so you can quickly notify companies if your cards are lost or stolen.*

**Source:** **NEFE High School Financial Planning Program.*