USING CREDIT

How do I use credit?

When you use credit, it usually means using a credit card. It also might mean that you get a loan. A loan is another way to use credit. Using credit means you borrow money to buy something.

1. You borrow money (with your credit card or loan).
2. You buy the thing you want.
3. You pay back that loan later – with interest.

What is interest?

Interest is what you pay for using someone else's money. You repay money to whoever gave you the credit card or loan. Credit cards and loans have different interest rates. Look for the "APR." APR means annual percentage rate. It is how much interest you pay during a whole year. A lower interest rate means you pay less money. A higher interest rate means you pay more money. For example, a loan with a 2% interest rate costs less than a loan with an 18% interest rate.

When can I use credit?

Many people use a credit card to buy everyday things. You might use a credit card to pay for:

- Gas
- Groceries
- Services – like a haircut

Loans usually are for more expensive things. You might get a loan for:

- Furniture
- Education
- A car or home

Where can I get a credit card?

Banks and credit unions offer credit cards. They usually offer credit cards to people with a good credit history. Some stores offer credit cards. You can use a store credit card only in that store. Sometimes these cards are easier to get if you do not have a good credit history. Sometimes a store credit card is a good way to build your credit history.

Where can I get a loan?

Banks and credit unions offer loans. They usually offer loans to people with a good credit history. Some stores offer loans to buy their product. These loans often cost more money. Why? Because interest often is higher on a store loan than on a bank loan.

What if I can't get a loan?

There are other ways to borrow money. Some people go to a payday lender. Some use the title to their car to get a loan. Some people pawn things. These other ways to borrow are expensive. They almost always cost more than going to a bank, a credit union or a store.

Some people have problems with debt after using these ways to borrow. The charges can be very high. It is hard to pay the money back and get out of debt.

How do credit cards work?

When you use a credit card, someone lends you money to buy something. Here is how it works:

1. You want to buy groceries.
2. You pay with a credit card from a bank.
3. The bank pays the store for your groceries.
4. The bank sends you the credit card bill, including charges for the groceries.
5. You pay your credit card bill.

How do I get a credit card?

You must apply to get a credit card. The company you apply to will check your credit history. The company uses your credit history to decide:

- if you will get a credit card
- how much you will pay for the card

Before you apply for a card, be sure you compare at least three cards. You want to get the best deal you can.

How do I compare credit cards?

Credit cards offer different deals. Before you get a credit card, find out these things:

- **What is the annual fee?** This is what you pay to use the card for a year.
- **What is the APR?** APR means annual percentage rate. This is how much interest you pay every year. A lower APR means you pay less interest. That costs you less money.
- **Are there other fees?** How much will it cost if a payment was late? What will it cost if you go over your credit limit?
- **What is the grace period?** This is the time between when you spend money and when the card charges you interest. A longer grace period is better. Look for one that is at least 25 days long.

What if I can't get a credit card?

You might be able to get a secured credit card. Many credit unions, banks, and some other companies offer secured credit cards. Using a secured credit card can help you build or improve your credit history.

What is a secured credit card?

A secured credit card is a card that you pay for in advance. You put money in an account and use **your** money, not a loan from a bank. It works like a regular credit or debit card. It is different from a prepaid card:

- A secured credit card usually has lower fees than a prepaid card.
- A secured credit card can help you build your credit history. A secured credit card should give information to the three credit reporting companies. Most prepaid cards do not.

How do secured credit cards work?

Here is how secured credit cards work:

1. You apply for a secured card from a credit union, bank, or credit card company.
2. The credit union, bank or company checks your credit history.
3. If your application is approved, you pay a fee to use the card for a year.
4. You deposit money in the bank. The deposit usually is $300-$500.
5. Sometimes the amount you deposit is your credit limit. But sometimes your credit limit is less than the amount you deposit. Your credit limit means the amount you can spend on the card.
6. You use the card to buy things. You can spend only up to your credit limit.
7. You deposit that amount back into your account. You can spend that money next month.
8. The secured credit card company gives information to the three credit reporting companies about the way you pay for your card.

How do I choose a secured card?

Before you apply for a card, find out these things:

- **Is there an application fee?** Look for a card with no fee.
- **What are the other fees?** Look for:
    - a low annual fee
    - a card with no processing fees
    - a low interest rate
- **Does the card company send your information to the three credit reporting companies?** You want them to. Your credit history might improve that way.
- **What interest does your deposit earn?** It should earn interest like any other bank account.

How should I use my credit card?

Using your credit card is like getting a loan. When you use your credit card to buy something, you are borrowing money. Some people use a credit card to buy things they cannot afford right now. Some people use a credit card to help build or improve their credit history. Sometimes it is just easier not to carry cash. Sometimes it is easier to pay once a month for the things you buy. You pay less for your credit if you pay everything you owe every month.

Should I pay the whole bill every month?

If you can pay your whole bill every month, that means you probably will not pay interest and it makes credit less expensive for you. You might not pay your whole bill every month. You might pay only the minimum payment. That means you will pay interest on the amount you did not pay back. That amount is called the balance. Credit is more expensive if you pay the minimum amount due. If you do not pay the minimum amount due, also called the minimum payment:

- your interest rate might go up

- you might have to pay fees
- your credit will cost you a lot of money

Here is an example of paying the minimum:

Your credit card interest rate is 18%.
You owe $1,000.
Your minimum payment is $50 each month.
If you pay only $50 each month, and you never spend another dollar on that card, it will take you 5 years to pay the full bill.
During those 5 years, you will pay $360 in interest.
The $1,000 you borrowed will cost you $1,360.

How can using credit help my credit history?

Do you want to help your credit history? Here are some ways to help yourself by using credit:

- Use your credit card a few times a month.
- Buy things you can pay for that month.
- Pay the whole credit card bill every month.
- Do not leave a balance on your card.

This is how to improve your credit history. But it takes time.

How do loans work?

You borrow money, maybe from a bank or credit union. You agree to pay back the money in a set amount of time. You also agree to pay a certain interest rate. The interest rates for loans usually are lower than the interest rates for credit cards.

Where can I get a loan?

Most banks and credit unions offer loans. To get a loan, you must apply. The bank or credit union will check your credit. The bank and credit union use your credit history to decide:

- if you will get a loan
- how much you will pay for the loan

You might have a bad credit history, or no credit history. That means you might not get a loan from a bank or credit union. It might take time to improve your credit to get a loan. Sometimes, you can apply to a store for a loan. You can use a store loan to buy something from that store. These loans sometimes are easier to get if you have bad credit. Stores also check your credit history. And store loans sometimes have higher interest rates. A store loan might cost you more money than a bank loan.

What if I can’t get a loan?

You might need to buy something small. You might use a credit card to buy it, even if you have to pay interest. But maybe you cannot use a credit card. Or maybe you need to pay for something bigger. Some people go to a payday lender. Some use their car title to get a loan. Some pawn things.

These are expensive ways to get money. Fees and interest rates are very high. These lenders also are not good if you need a big loan or if you need money very fast. The truth is that there might not be a good answer to this question. You can build a credit history or improve your credit history. One way is to get credit and use it wisely. That takes time.

How can I get credit?

If you do not have credit, the best place to start is with a **credit card**. Compare several credit cards. Apply for the one that gives you the best deal. Look for:

- a low annual fee
- a low APR, or annual percentage rate
- lower fees:
    - if a payment is late
    - if you go over your credit limit
- a long grace period. This is the time between when you spend money and when the card charges you interest. Look for one that is at least 25 days long
- If you cannot get a regular credit card, try to get a secured credit card. Apply only for cards that report your history to the three credit reporting companies.

Look for a secured card with:

- no application fee
- a low APR, or annual percentage rate
- lower annual fees
- no processing fees
- higher interest rates on the money you deposit

How can I improve my credit?

You can use credit to build and improve your credit history.

- Use your credit card a few times a month.
- Buy things you can pay for that month.
- Pay the whole credit card bill every month. Do not leave a balance on your card.
- Pay your bill by the date it is due. Paying even one day late will cost you money.
- People who do this start to see a better credit history. But it takes time.