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SOME IDEAS THAT MAY HELP WITH

Understanding and Using Credit

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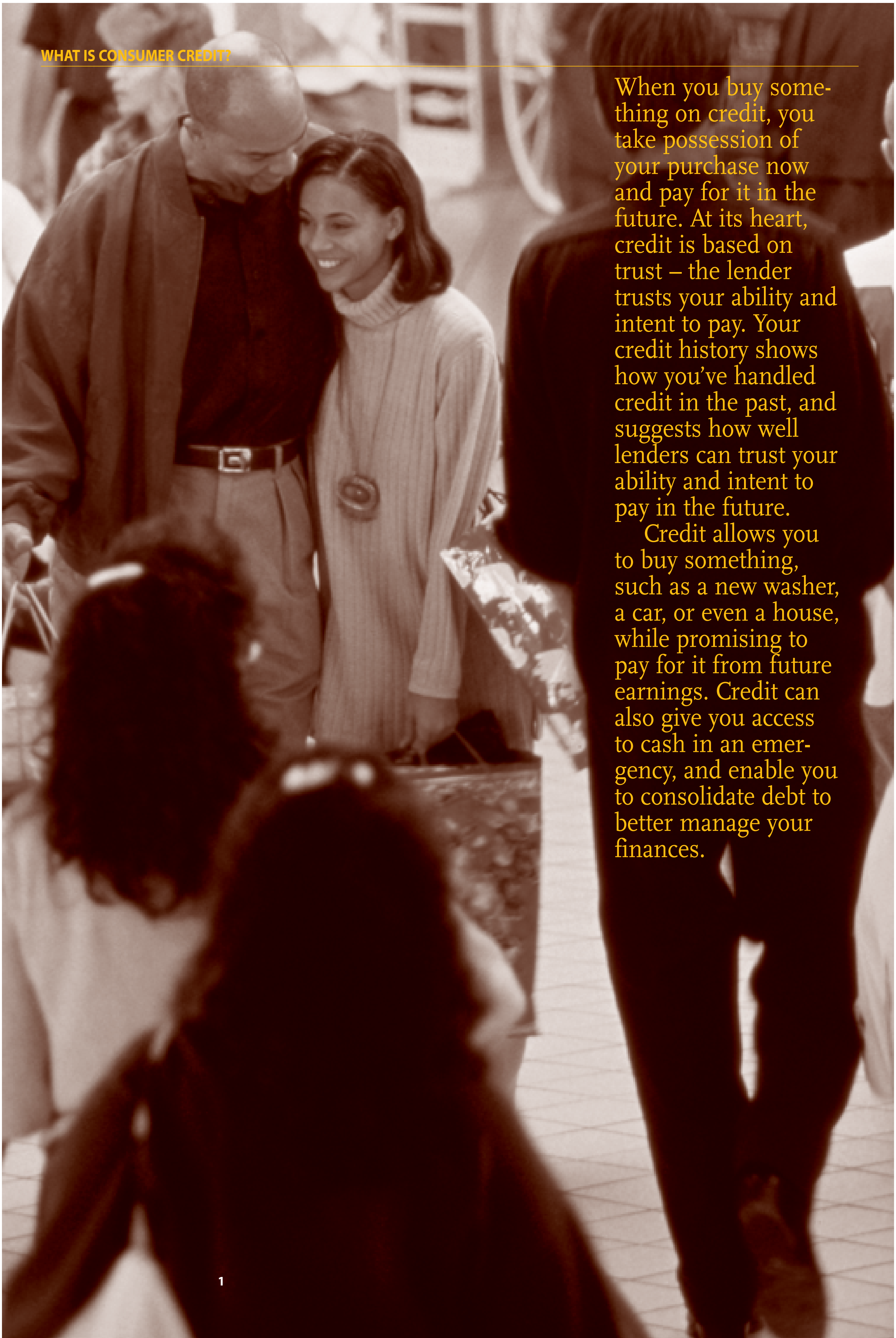


When you buy something on credit, you take possession of your purchase now and pay for it in the future. At its heart, credit is based on trust – the lender trusts your ability and intent to pay. Your credit history shows how you've handled credit in the past, and suggests how well lenders can trust your ability and intent to pay in the future.

Credit allows you to buy something, such as a new washer, a car, or even a house, while promising to pay for it from future earnings. Credit can also give you access to cash in an emergency, and enable you to consolidate debt to better manage your finances.

SHOULD YOU USE CREDIT?

There is no simple answer. Every time the question is raised, you will have to decide whether buying an item on credit is worth the additional cost. Some factors to consider:

- Do you need the item now or can you save for it?
- Do you have savings or cash you might use instead?
- How much will the interest and other charges be?
- Do these payments and costs fit into your budget?
- Will the interest be tax deductible?
- How much will this purchase increase your total debt?

Paying cash vs. using credit

Saving your money and paying cash for an item is less expensive than using credit. But credit gets you goods and services now. Both require that you regularly set aside money from current income. In other words, if you cannot afford to save for it, you cannot afford to buy it on credit.

Savings earn money; credit costs money. The difference can be substantial. Let's assume that you face a choice between buying a $2,000 item now on credit, or saving $2,000 over the next year and then buying it. If you buy the item with a credit card, you might pay $200 in interest over the next year. Instead, if you save $2,000 you might earn $50 in interest. That's a difference of $250. And that's money in your pocket.

THE PROS AND CONS OF USING CREDIT

Credit can smooth your finances and improve your standard of living. However, if not used carefully, credit can put you dangerously into debt. Remember: credit is only a substitute for cash. It must be paid back – with interest.

Pros	**Immediate use of goods and services**	Get it now, pay later. This is especially helpful for big-ticket items such as a piece of furniture, a car, or a house.
	Shopping convenience	Credit cards and charge cards allow you to shop and travel without carrying large amounts of cash. They also provide monthly records of your spending.
	Reservations and purchases by phone or Internet	Credit cards and charge cards make it possible to reserve rental cars and hotel rooms, or buy tickets or other merchandise over the phone or Internet.
	Emergency cash	Credit can provide a temporary solution to unexpected financial difficulties.
Cons	**Credit costs money**	Purchases paid for over time cost more, often much more, than cash. That “irresistible bargain” may not be a good deal when you add in the cost of credit.
	It tempts overspending	Credit makes impulse buying easy. Some consumers go deeply into debt buying items they don’t really need and can’t really afford.
	It ties up future income	Credit purchases mean you will have to pay for the item, plus interest, in the future. This means less available cash in the future.
	It may result in losses	If you fail to make payments on time, you may lose the merchandise. For loans that require collateral, you could lose valuable property or even your home.

Consumers today are faced with many choices when it comes to using credit. For everyday purchases such as food, clothes and gasoline, the following types of credit are most commonly used.

EVERYDAY PURCHASES	Payment Schedule	Common Uses
Charge card (regular or 30-day account)	Full payment every month, typically in 10-30 days	A variety of items including food, clothing, reservations, tickets, vacations, cash substitute
Credit card (revolving open-end charge account)	Minimum monthly payments	Same as above
Debit card	Purchase amount is deducted directly from checking account	Same as above

Charge Cards

With charge cards (regular or 30-day accounts) you pay your bill in full each month rather than carry a balance. The most well-known charge card is the American Express® Card, recognized around the world, and one of several types of cards offered by American Express. Charge cards are also offered by many department stores and gasoline companies.

Credit Cards

Unlike charge cards, credit cards allow you to carry a balance from month-to-month. However, you are required to make at least a minimum payment each month. Interest is charged on the outstanding balance. Major credit cards carrying the VISA® and MasterCard™ brands are honored by merchants around the world.

Retail Credit Cards

Retail merchants such as Sears® and J.C. Penney® issue credit cards that are accepted only by their particular store. Similarly, gasoline credit cards, such as the Exxon/Mobil® card, are accepted only at those particular stations. These cards carry an interest rate, but generally no annual fee.

Debit Cards

With debit cards, the full amount of the purchase is immediately deducted from your checking account at the time of use.

	Type of Security	Cost	Source
	None, good credit only	Possible annual fee, late payment fee, overlimit fee	Financial institution, retail store, gasoline companies
	None, good credit only	Finance charge (interest), possible annual fee, late payment fee, overlimit fee	Same as above plus credit card companies
	None, but must have money in checking account to cover purchase	None	Financial institution

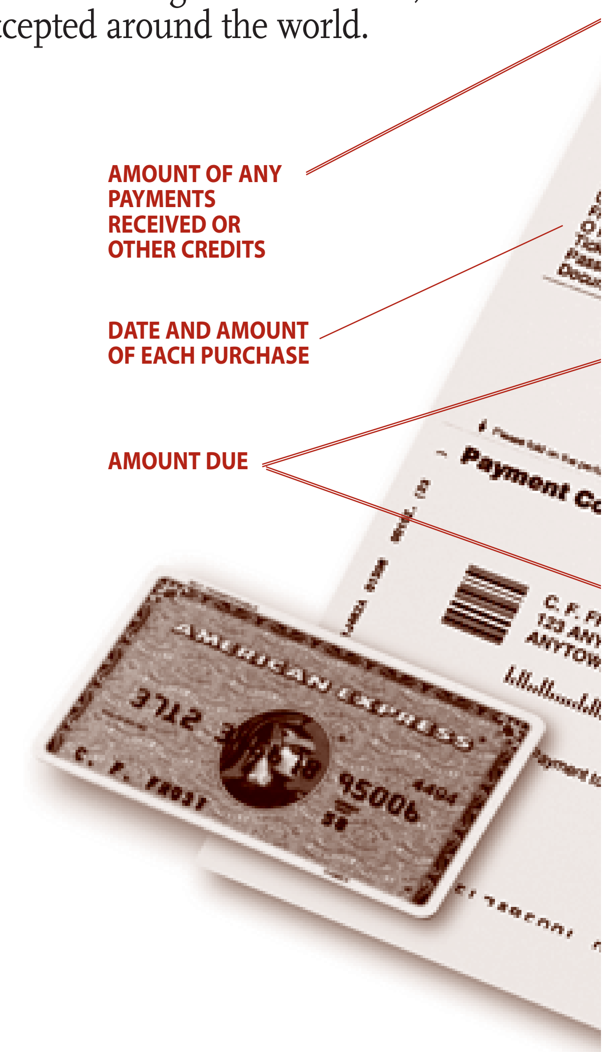
MONEY SAVING TIP

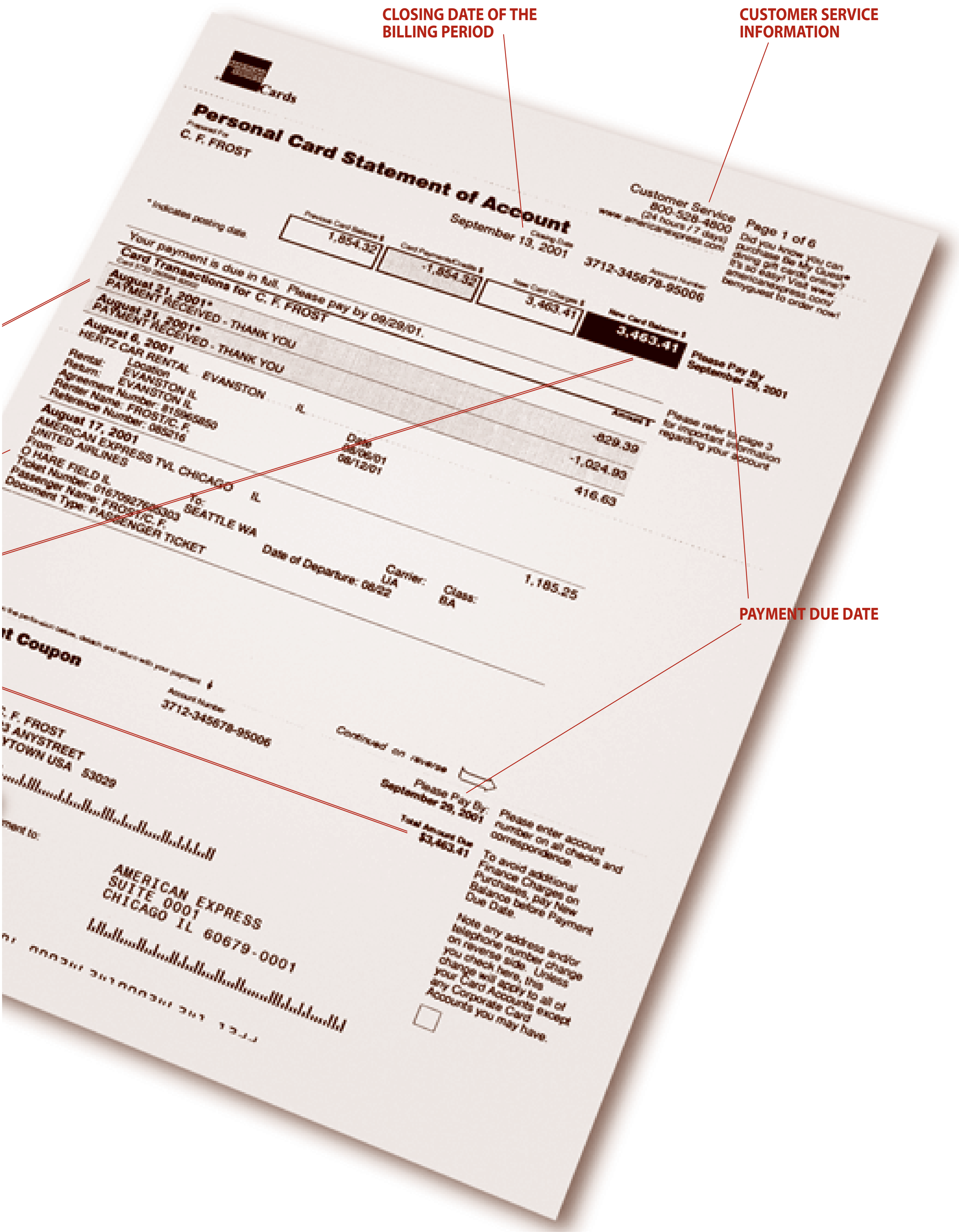
Make sure you know which are your credit cards, charge cards, and debit cards.

Unlike a credit card, a charge card does not allow you to make extended payments or carry a balance. You must pay your bill in full within 10 to 30 days after the billing date. You'll probably be charged an annual fee.

MONEY SAVING TIP

Charge cards provide a built-in way to help you monitor your spending, since they must be paid-in-full each month. When considering a charge card, compare fees as well as the benefits that come with the card. For example, look for protection and warranty programs, reward points for dollars spent, a reputation for good customer service and best value guarantees. Also, choose a card that is widely accepted around the world.




CLOSING DATE OF THE BILLING PERIOD
CUSTOMER SERVICE INFORMATION
PAYMENT DUE DATE
Cards
Personal Card Statement of Account
C. F. FROST
September 13, 2001
Customer Service
Page 1 of 6
3712-345678-95006
Please Pay By
September 29, 2001
Your payment is due in full. Please pay by 09/29/01.
Card Transactions for C. F. FROST
August 21, 2001*
PAYMENT RECEIVED - THANK YOU
August 31, 2001*
PAYMENT RECEIVED - THANK YOU
August 6, 2001
HERTZ CAR RENTAL EVANSTON
August 17, 2001
AMERICAN EXPRESS TVL CHICAGO
UNITED AIRLINES
SEATTLE WA
Coupon
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UNDERSTANDING CREDIT CARDS

Credit cards allow you to make purchases up to a certain credit limit. Your balance (the total amount you owe on the card) may not exceed that limit. You will be billed every month, and at that time you must pay at least the minimum payment highlighted on your bill. However, you always have the option of paying more than the minimum, or even the entire balance, without a prepayment penalty.

It is best to pay off as much of the balance as you can because credit card companies bill you monthly and assess a finance charge on the unpaid balance. Interest rates and fees vary widely, and there is often an annual fee. You can also get cash advances on most major credit cards, such as VISA® and MasterCard™, by presenting them at any bank or credit union that honors them. Many major credit cards also offer 24-hour customer service over the phone or Internet.

UNDERSTANDING A CREDIT CARD STATEMENT

Review your credit card statement carefully to make sure you understand the costs associated with using your credit card.

Current interest rate

Always look at the APR (annual percentage rate) in order to make comparisons. Although some credit cards also show monthly or daily rates, these can be misleading. Many credit cards charge a higher APR for cash advances than for purchases.

How the interest rate will change

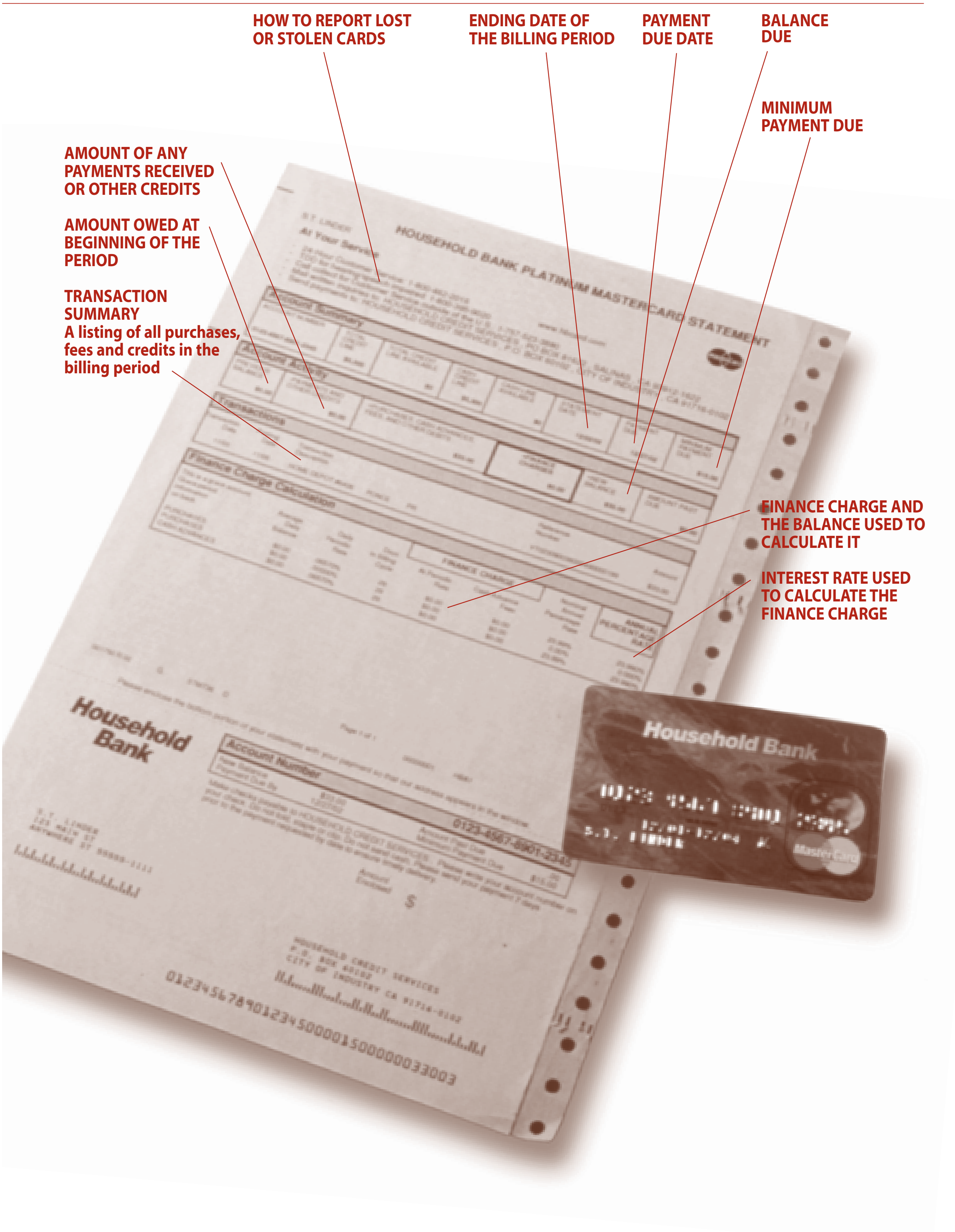
Some credit cards carry a variable interest rate, which could change as often as every month. The variable interest rate is calculated by adding a fixed percentage to a floating rate, such as the prime interest rate. When the floating rate goes up or down, so will your interest rate.

Annual fee

Some cards require an annual fee, others do not. Annual fees vary, so it's worth shopping around.

Grace period

With most credit cards, if you pay your full balance each month, on or before the end of the grace period, you pay no interest on new card purchases. However, some cards have no grace period and charge interest from the moment of purchase. Cash advances do not come with a grace period.


HOW TO REPORT LOST OR STOLEN CARDS
ENDING DATE OF THE BILLING PERIOD
PAYMENT DUE DATE
BALANCE DUE
MINIMUM PAYMENT DUE
AMOUNT OF ANY PAYMENTS RECEIVED OR OTHER CREDITS
AMOUNT OWED AT BEGINNING OF THE PERIOD
TRANSACTION SUMMARY
A listing of all purchases, fees and credits in the billing period
FINANCE CHARGE AND THE BALANCE USED TO CALCULATE IT
INTEREST RATE USED TO CALCULATE THE FINANCE CHARGE
HOUSEHOLD BANK PLATINUM MASTERCARD STATEMENT
Account Summary
Account Activity
Transactions
Finance Charge Calculation
Household Bank
Account Number
0123-4567-8901-2345
Household Bank

Credit cards vary considerably in their interest rates, annual fees, special features, and awards programs. Some cards charge 9 percent per year, others charge 20 percent or more. Some cards have no annual fee, while others charge an annual fee of more than $60 per year. *The card that is best for you depends on your spending habits and individual needs.* Consider these three major factors:

How large a balance do you carry from month to month?

If you typically carry a large balance from month to month, look for a card with the lowest possible interest rate. If you carry a small balance from month to month, look for a low-fee or no-fee card with a reasonable interest rate.

Do you want or need special services?

Some cards offer services such as free rental car insurance or extended warranties. Suppose you rent cars frequently and have no car insurance of your own. You might want to pay a higher annual fee for a credit card that includes this service in order to save on the cost of rental insurance.

Do you want to participate in an awards program?

Some credit cards let you earn frequent user points toward cash rebates, credit towards a new car, discounts on phone calls, free airline tickets, or donations to your favorite charity. If you take advantage of these value-added programs, it may be worth a higher interest rate or higher annual fee.

To help prevent thieves from stealing and using your credit card number, be careful when giving out your personal credit information.

- When giving credit information over the phone, make sure the person (and company) is legitimate. Do not give credit information in response to high-pressure sales tactics. Be suspicious of "incredible, one-time" offers.
- When giving credit information over the Internet, make sure the website is a secure site. Most secure sites will highlight this with a notice, or use a small graphic symbol of a lock, to indicate the site is secure and that no one can tap into the site and steal your credit card number.
- Keep receipts of your credit card purchases in a safe place.
- Keep a separate record of all your credit card numbers.
- Destroy unwanted cards.
- Sign new cards immediately.

MONEY SAVING TIP

Since most credit cards charge a higher interest rate for cash advances than for purchases, use this feature selectively, or, better yet, only in emergencies.

MONEY SAVING TIP

Check your credit card bills to make sure each purchase listed is yours. If you are charged for a purchase you didn't make, phone the card issuer immediately and follow up by sending a letter. Mail your letter separately from your payment.

Consumers today are faced with many choices when it comes to using credit. For major purchases such as home remodeling, automobiles, furniture or appliances, the following types of credit are most commonly used.

Personal Lines of Credit

A personal line of credit is similar to a credit card in that a balance may be carried from month-to-month, against which a minimum monthly payment must be made. But instead of an actual card, you receive special checks to use against your credit line.

Installment Loans

Installment loans are credit extended by a bank, finance company or credit union, in which the borrower makes a set number of regular installment payments over a fixed period of time. Payments are for a fixed amount, which can be helpful for budgeting.

Sales Finance Contracts

Sales contracts are installment loans extended by retailers to consumers purchasing large-ticket items such as furniture, major appliances, consumer electronics, etc.

Auto Loans

Auto loans are installment loans secured by the automobile being purchased.

Home Equity Loans

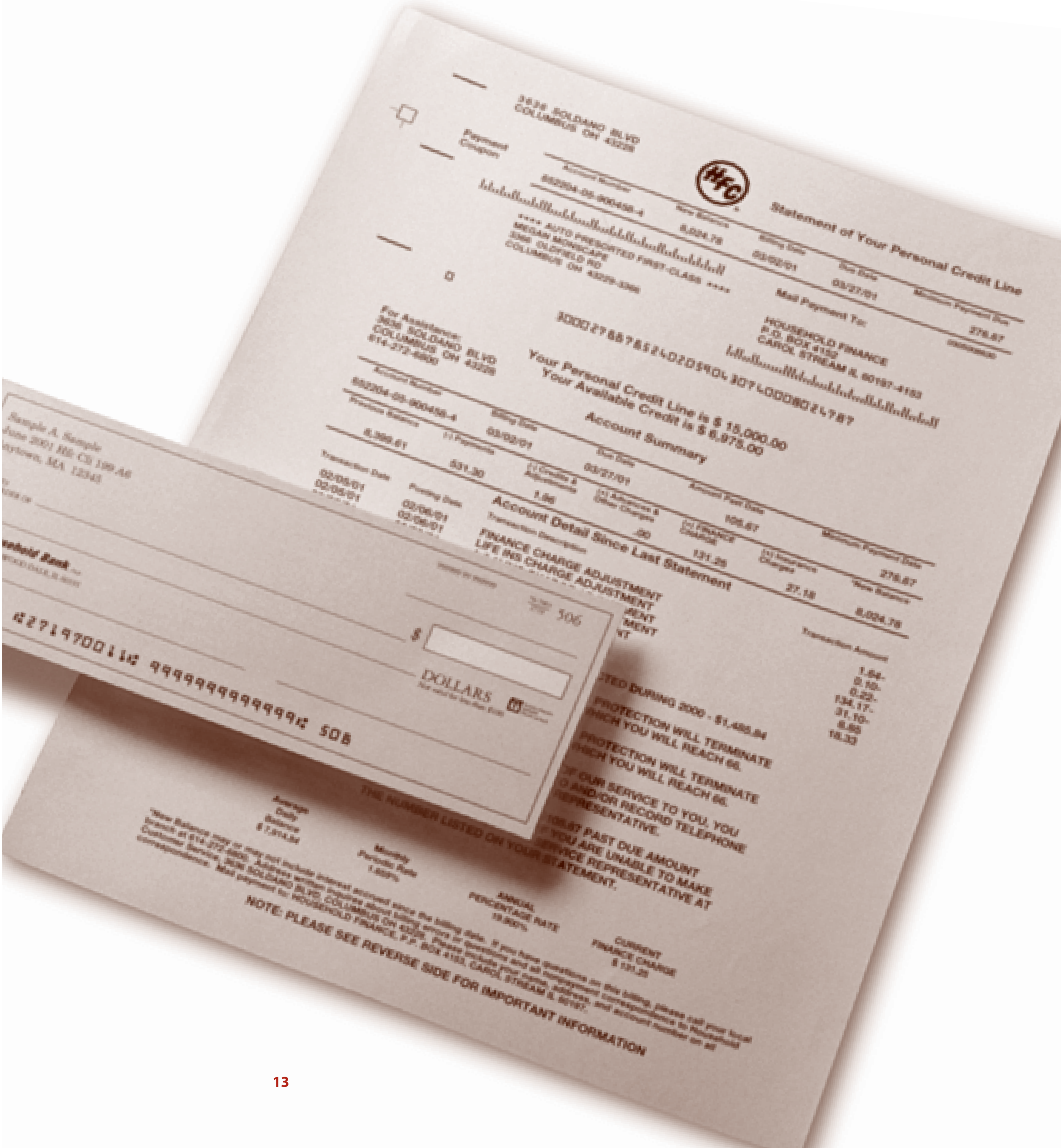
Home equity loans are loans secured by your home. They are available as either a personal line of credit or as an installment loan. The interest rate on a home equity loan is usually lower than on an unsecured loan, and the interest payments are generally tax deductible. Check with a tax advisor to be certain. But if you fail to make your payments, you could lose your home.

MONEY SAVING TIP

Instead of cash advances on credit cards, or even small installment loans, consider a personal line of credit. The cost is often less than for a small installment loan, and is generally much less than for cash advances on credit cards. Some credit lines can even be linked to your regular checking account to provide overdraft protection.

With a personal credit line, you borrow money by writing checks from a special checkbook. You can carry a balance from month-to-month (just as with credit cards). Interest on your balance is usually charged monthly, you must make at least a minimum monthly payment, and you cannot exceed your credit limit. Some accounts also charge a small fee per check.

Flexibility is one of the main advantages of a personal line of credit. You decide when, and how much, to borrow against your credit line.



INSTALLMENT LOANS

Installment loans are offered by banks, finance companies and credit unions. Interest rates vary depending on the lender, the size of the loan, the time period, and the security offered. With installment loans, you make a series of regular, fixed payments over a specific period of time.

Some installment loans may have what is called a balloon payment – one large final payment – after a series of smaller payments.

Unsecured Loans

Unsecured loans do not require the borrower to secure the loan with collateral. Unsecured loans typically have higher interest rates than secured loans.

Secured Loans

Secured loans carry lower interest rates than unsecured loans, but require the borrower to secure the loan with collateral such as real estate, a savings or investment account, or other valuables. The collateral is then "frozen" (you can't spend or sell it) until the loan is paid off.

Single-Payment Loans

Single-payment loans are a type of secured loan in which you agree to pay the full amount in one lump sum, usually after 30, 60, or 90 days. Common forms of security for these loans are savings accounts, stocks and bonds, or other cash accounts.

MONEY SAVING TIP

Ask your lending institution if you'll save by paying off your installment loan sooner, either through extra payments or through larger payments than required. In some cases you will save; in other cases there may be a prepayment penalty.

MONEY SAVING TIP

Consider installment loans for larger credit needs. Interest rates on smaller loans ($2,000 to $3,000) are often higher than on larger loans.

Appliance, electronics, furniture and other stores that sell big-ticket items usually offer installment purchase plans. You will probably make a down payment, with the balance to be paid in regular installments over a fixed period of time.

The merchant usually retains a security interest in the item until all payments are completed. If you default on the loan, the merchant can repossess the item.

The methods used to calculate interest vary widely. The merchant may use simple interest or precomputed interest.

Sometimes merchants sell your installment contract to a bank or consumer finance lender. If this happens, the bank or consumer finance lender will contact you with information about repayment.

MONEY SAVING TIP

Before signing a sales finance contract, ask about the merchant's policies on defective merchandise, and about service, warranties and refunds. If there is a problem with the merchandise, first work with the merchant to correct the situation. If you get no satisfaction, write to the financial institution and explain the situation. They will usually intervene on your behalf.

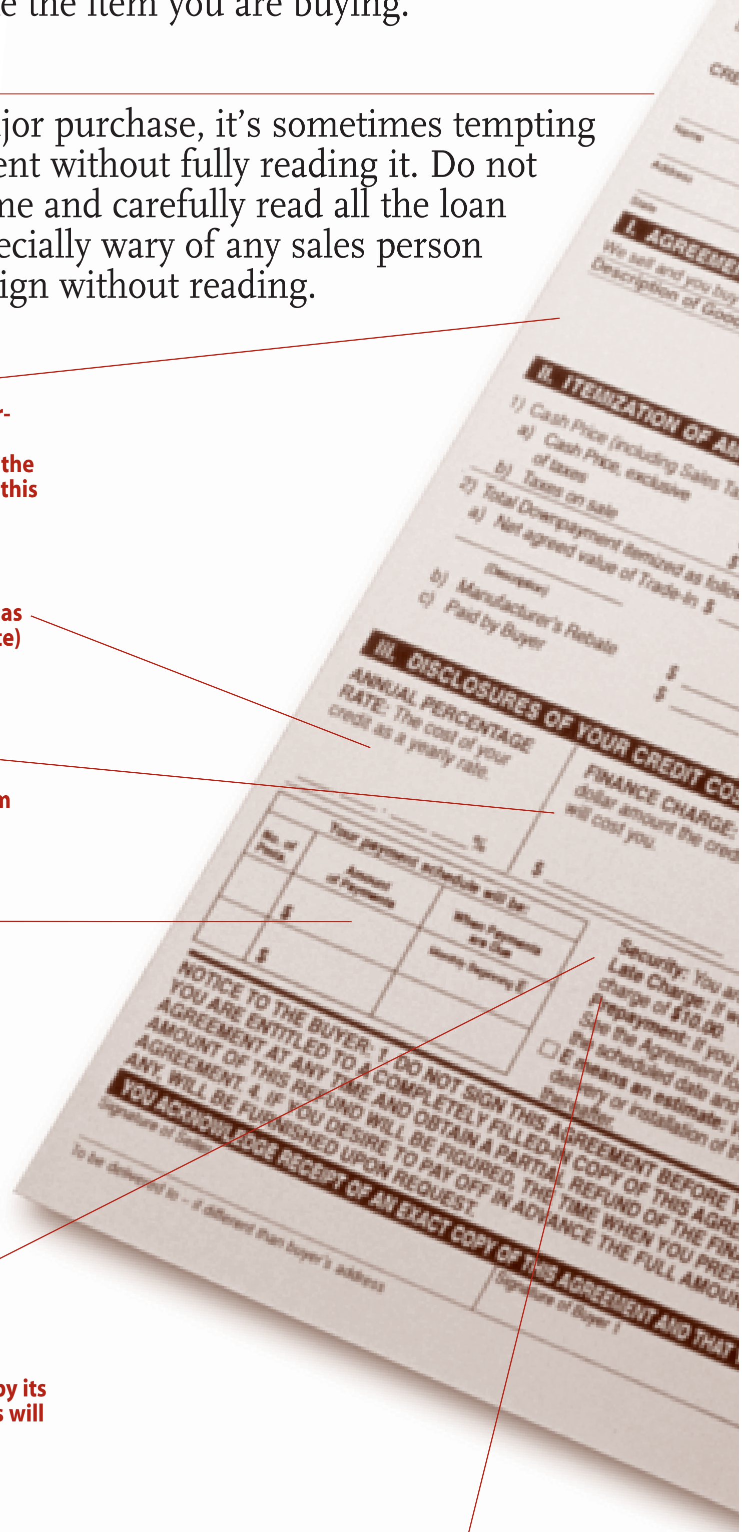
MONEY SAVING TIP

Don't assume that you have to use a merchant's sales finance agreement just because you're buying from him. The merchant's plan may be a good deal. But other sources of credit may be even better.

Below are a few things you should know about a typical sales finance agreement. This type of loan is a service you are purchasing, just like the item you are buying.

MONEY SAVING TIP

At the time of a major purchase, it's sometimes tempting to sign the agreement without fully reading it. Do not do so. Take your time and carefully read all the loan documents. Be especially wary of any sales person pressuring you to sign without reading.



SECURITY PLEDGED
Describes the item you are purchasing. If you default (do not make the monthly payments), the creditor can take or repossess this item as security.

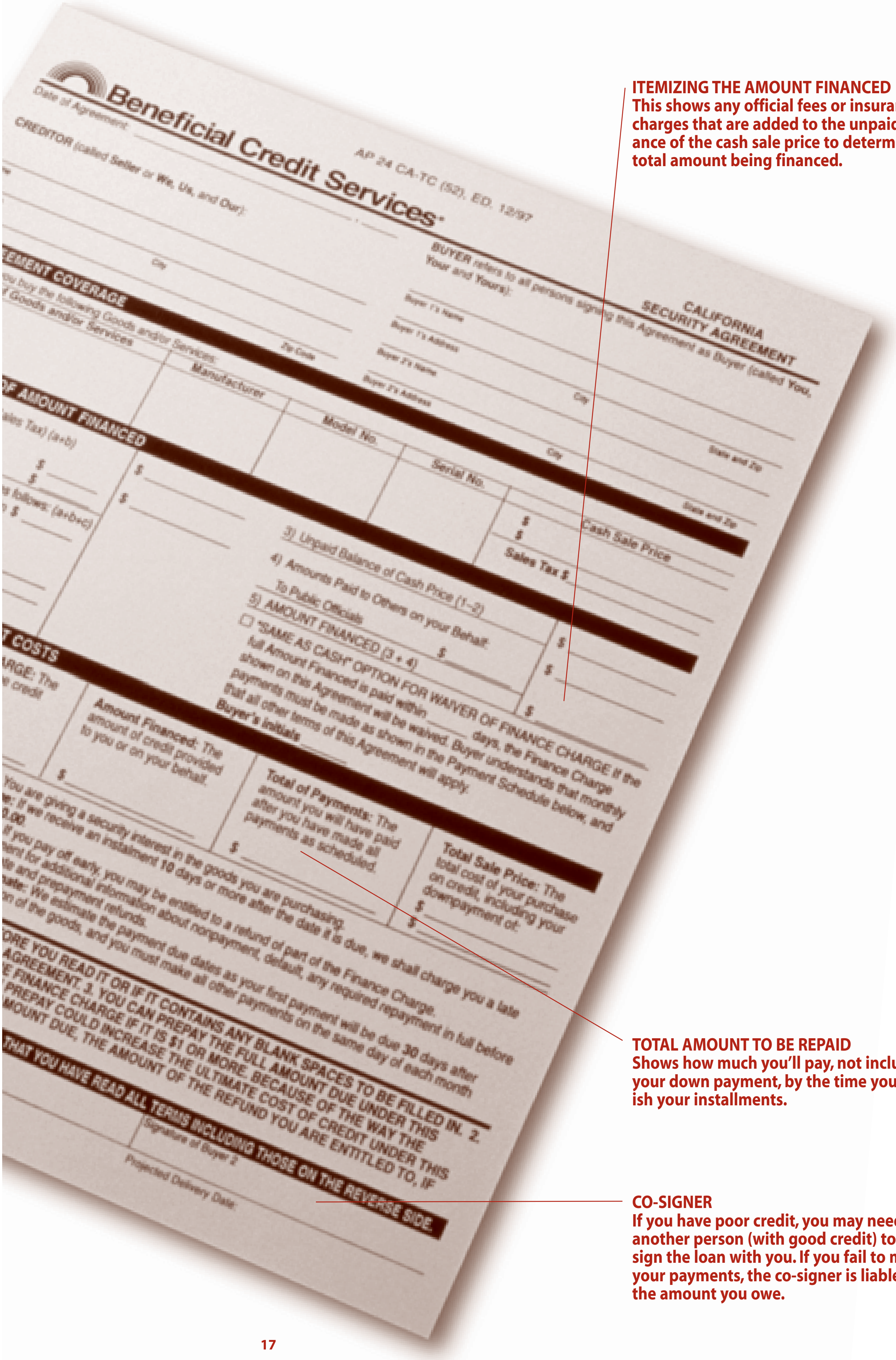
INTEREST RATE
The interest rate as expressed as an APR (annual percentage rate) for easy comparison.

FINANCE CHARGE
The dollar amount of interest you will pay to finance the item you are purchasing.

MONTHLY PAYMENTS
Shows the amount of each monthly payment, the total number of payments, and when they're due.

LATE FEE
If you fail to make a payment by its due date, these additional fees will be added to your account.

PREPAYMENT PRIVILEGE
If you think you might want to pay off the contract early, read this section carefully. With some sales finance contracts, there may be no benefit to paying it off early and in fact, there may be a prepayment penalty.



ITEMIZING THE AMOUNT FINANCED
This shows any official fees or insurance charges that are added to the unpaid balance of the cash sale price to determine the total amount being financed.

TOTAL AMOUNT TO BE REPAID
Shows how much you'll pay, not including your down payment, by the time you finish your installments.

CO-SIGNER
If you have poor credit, you may need another person (with good credit) to co-sign the loan with you. If you fail to make your payments, the co-signer is liable for the amount you owe.

An auto loan is similar to a sales finance contract, but is for the purchase of a new or used car or truck. If you purchase your vehicle through a dealership, the dealer may offer you financing. If you decide to apply for dealer financing, the dealer will ask you to fill out an application, which will be sent to several banks or finance companies the dealer works with. If your application for credit is approved, you will be offered credit from one or more of these lenders. Remember that your vehicle serves as security, or collateral, for your loan, so if you do not make regular payments, the lender can repossess the vehicle.

MONEY SAVING TIP

Don't feel pressured to take the financing offer the dealer gives you. Shop around for the best terms. Consider getting financing approval from a bank, finance company or credit union before you buy your car.

Auto Leasing

Leasing a car or truck (instead of buying one) has become very popular in recent years. Leasing a car is just like renting. The car belongs to someone else (the leasing company), and you make monthly payments for the use of it. At the end of the lease term, you must return the car to the leasing company. Often the monthly payment for an auto lease is lower than the monthly payment for an automobile loan because you are only paying for a portion of the car's full value over the lease period. However, at the end of the lease period, when you return the car, you will have no equity and nothing to show for the payments you have made.

If you are trying to decide whether to lease an automobile, consider these points:

Pros

- Since the monthly payment for an auto lease is often lower than a loan payment for the same car, you could afford to drive a nicer car for the same monthly cost. Or you could put that extra cash into a savings account.
- Up-front costs for an auto lease, including your security deposit, fees and taxes, are much less than the down payment and sales taxes required when you purchase an automobile.

Cons

- If you need to terminate your auto lease before the end of the lease period, you will probably pay significant fees for early termination. These fees could reach thousands of dollars. Be sure to read the fine print on the lease contract to determine your responsibility if the lease is terminated early.
- Leasing companies sometimes require higher amounts of insurance coverage than you would normally carry. Before signing your lease, get an estimate from your insurance company for the cost of extra coverage.
- Many lease companies charge extra fees for mileage exceeding a certain limit per year. These fees are in addition to your monthly lease payment, so consider how much you drive before deciding whether to buy or lease.

A home equity loan allows you to borrow against the value of your home. This has two big advantages:

- lower interest rates than an unsecured loan
- the interest paid is usually tax deductible (check with your tax advisor)

There is one disadvantage: If you default on payments, you could lose your home. Because of this risk, think carefully before taking out a home equity loan.

Consider all of the costs, not just the interest expense. Is there an application fee? Are there annual fees, or origination fees (points)? Will you have to pay closing costs, such as for a title search, an appraisal, attorney's fees, or extra home insurance? Are there prepayment penalties? Is the interest rate fixed or variable? If variable, how high can the interest rate go before it's capped? Or is there a cap?

Three days to cancel

During the first three business days after signing a home equity loan, you may cancel it without penalty. The Federal Truth in Lending Act gives you this cancellation right, called the right of recision, for any credit agreement that uses your home as security. Its purpose is to give you time to fully understand the loan, and to reconsider if you wish. However, to cancel you must notify the creditor in writing within the three-day period.

MONEY SAVING TIP

While weighing the advantages of a home equity loan, carefully consider whether you might have trouble making payments. Make sure your reason for borrowing is worth the risk of potentially losing your home (should you default on payments).

Shop for money the same way you shop for any other item. Try to get the type of payments you want at the lowest total cost.

Carefully read every contract. Compare interest rates, which will be expressed in the contract as an APR (annual percentage rate). Make sure you understand all other fees and costs, such as late payment fees, prepayment penalties and insurance. Look at the total cost and repayment schedule, not just the interest rate. One-time charges and annual fees must be factored into the cost of credit. By shopping for credit, you can save hundreds or even thousands a year. In particular, focus on these five issues:

Total amount to be repaid

Add up the cost of the down payment, fees, other charges, and all payments over the life of the loan or contract. Is this purchase worth the total cost?

Interest rate

Is it a good effective interest rate or could you borrow the money elsewhere, at a lower interest rate, to make this purchase?

Monthly payment and maturity

Does the monthly payment fit your budget without any strain? If you lengthen the maturity, it will lower the monthly payment. (But you'll end up paying a larger total amount.)

Security pledged

What will you lose if you cannot make the monthly payments?

Warranties, service, and repair

What extras are included in the purchase price? Do you really need these extras?

MONEY SAVING TIP

Be cautious when a deal seems too good to be true. For example, if a retailer offers you no money down and no payments for six months, there may be a catch. Perhaps the price of the item has been inflated, or perhaps you'll be paying an unusually high interest rate.

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Comparing costs

How can you tell which is the better deal on a retail installment purchase – a low price with a high interest rate, a higher price with a low interest rate, or something in-between? The only way to determine the best deal is to add up all the money you'll have to pay. This includes any down payment, taxes, fees, and all installments or other payments.

Suppose you were shopping for a particular model of color television. Three different stores offered three different prices with three different installment plans. Which deal would actually be the best?

COST COMPARISON	Store A	Store B	Store C
Price	$279	$388	$410
Annual percentage rate	27%	13%	12.5%
Monthly payment	$35.59	$34.28	$36.15
Number of payments	x12	x12	x12
Total payments	$427.08	$411.36	$433.80
Fees, taxes, other	+ 19.00	+ 12.00	+ 21.00
Your total cost	$446.08	$423.36	$454.80

Answer: Store B

MONEY SAVING TIP

The lowest price is not always the best purchase. Until you add in the total cost of credit (interest, fees, taxes), you don't really know your total cost.

When shopping for credit you should also consider whether or not you have adequate insurance coverage should the unexpected occur, like a death, disability or job loss. Many employers provide group life or group disability insurance coverage to their employees. You may also have other types of personal insurance coverage such as term life, whole or universal life or disability income insurance policies that should also be considered when determining your need for additional coverage at the time you decide to shop for credit. To determine your individual need for insurance coverage, complete the Needs Analysis Worksheet.

If you determine that you need that additional insurance coverage, there are many products that provide it. How much coverage you need may dictate which type of insurance product is right for you. If you need a large amount of coverage for an indefinite period of time, you may want to consider a separate individual life or disability income policy. Most life insurance products provide a fixed amount of coverage while the policy is in effect. If you need coverage specifically tailored to pay the balance or the monthly installment on a loan or credit card account, you may want to consider a credit insurance product. Credit life insurance generally provides a benefit equal to the loan or account balance during the term of coverage. Credit disability or involuntary unemployment insurance generally pays the monthly installment on the loan or credit card account at the time of disability or job loss.

For more information on various types of life insurance products, visit the American Council of Life Insurers' website at www.acli.com. More information about the benefits of credit insurance products and how they work is available on the Consumer Credit Insurance Association's website at www.cciaonline.com.

The American Council of Life Insurance recommends at least 5 to 10 times annual income in Life Insurance Coverage.

LIFE INSURANCE ANALYSIS	
1. Unprotected Mortgage Balance	
2. Five Times Annual Income	
3. Debts	
4. Education Fund	
5. Funeral Expenses	
6. Total Obligations (add lines 1-5)	
7. Less Existing Insurance	
Additional Protection Needed (line 6 minus 7)	
DISABILITY ANALYSIS	
Income:	
1. Net Monthly Income	
2. Disability Coverage % (consult your policy)	
3. Net Income if Disabled (line 1 x 2)	
4. Other Income	
5. Total Net Income if Disabled (add lines 3 and 4)	
Monthly Expenses:	
6. Mortgage/Rent Payment	
7. Other Loan/Credit Card Payments	
8. Other Monthly Expenses (food, utilities, gasoline, etc.)	
9. Total Expenses (add lines 6-8)	
Disposable Income (if line 5 is greater than line 9)*	
UNEMPLOYMENT ANALYSIS	
Income:	
1. Maximum Monthly Benefit (consult your state dept. of labor)	
2. Other Income	
3. Income if Unemployed (add lines 1 and 2)	
Monthly Expenses:	
4. Mortgage/Rent Payment	
5. Other Loan/Credit Card Payments	
6. Other Monthly Expenses	
7. Total Expenses (add lines 4-6)	
Disposable Income (if line 3 exceeds line 7)**	

*Additional Coverage Needed (if line 9 is greater than line 5) ______________________

**Additional Coverage Needed (if line 7 exceeds line 3) ______________________

When you need to borrow, where should you turn? The answer depends on your credit rating and the kind of loan you're seeking.

Banks, Savings and Loans

Commercial banks and savings and loans typically offer a broad range of financial services, but tend to emphasize secured credit products such as mortgages and home equity loans.

Finance Companies

Consumer finance companies also feature home equity loans and credit lines, but generally offer a wider variety of unsecured personal loans and lines of credit.

Credit Unions

Credit unions may offer low rates but only lend to members. These nonprofit cooperatives serve people who share a common bond, such as the same employer or labor union.

Life Insurance Companies

Life insurance companies will often let you borrow against the cash value of your life insurance policy. See your life insurance agent for more details.

401(k) Plans

Some 401(k) retirement plans allow you to borrow against your retirement savings, generally at a low interest rate. Check your company's plan for details.

Large Employers

Sometimes, larger companies may offer employees emergency cash advances or help with debt consolidation or automobile loans. If you work for a large company, ask your human resources department about this.

ESTABLISHING CREDIT – HOW TO GET STARTED

In order to establish a credit history, you need to borrow money and pay it back over time. By making your payments on time, you'll begin to establish a good credit history. Here are two ways to begin:

Apply for a retail store or gasoline credit card

They're generally easier to get than other types of credit. By making a few small purchases, and then making timely payments each month, you'll start building a credit history.

Apply for a VISA or MasterCard with a secured credit limit

If you have less-than-perfect credit, or no credit at all, you may still qualify for a major credit card. Here's how it works: As collateral (security deposit), you put a certain amount of cash (say $1,000) into a frozen bank account. The bank then issues you a credit card with a $1,000 credit limit. Once you've established a track record of timely, monthly payments, the card issuer will generally waive the collateral and return the security deposit to you.

ESTABLISHING CREDIT – USING CREDIT RESPONSIBLY

- Before signing a loan agreement or credit contract, consider your overall financial situation and your ability to pay.
- Make sure you fully understand a credit contract and its repayment terms before signing it.
- Make your loan payments promptly.
- Notify the creditor of any billing errors as soon as possible.
- Notify the creditor immediately if, for any reason, you cannot make scheduled payments.

401(k) plan–A retirement savings plan sponsored by a company for the benefit of its employees. The employees contribute a fixed amount to the plan out of their paychecks, before federal income taxes are withheld. The amount contributed to the plan accumulates tax-free until the employee reaches age 59 1/2. Some companies match a portion of their employees' contributions.

Annual fee–A yearly fee, typically associated with a credit card or revolving credit plan.

Annual Percentage Rate (APR)–The cost of your credit expressed as a yearly rate. APR is generally not the same as the contract interest rate.

Appraisal–The estimated value of a property.

Adjustable Rate Mortgage (ARM)–A mortgage loan with an interest rate that changes at regular intervals, based on an established index.

ATM withdrawal–Cash dispensed from an automatic teller machine and deducted from the checking or savings account balance.

Balance–The amount of money outstanding in an account.

Bankruptcy–A legal proceeding in U.S. Federal Court, entered into by borrowers who are unable to pay their debts. In Chapter 13 bankruptcy, the borrower files a payment plan with the court and promises to make partial payments to creditors. In Chapter 7 bankruptcy, a trustee may sell the borrower's assets and use the proceeds to repay the creditors. Both types of bankruptcy stay on the borrower's credit history for up to ten years.

Budget–A financial plan to manage the spending and saving of money.

Cash advance–Cash charged against a credit card. Since the advance is really a loan, interest is charged from the date of the advance.

Certificate of Deposit (CD)–Money deposited in a bank or savings and loan for a stated time period and normally paying a fixed rate of interest.

Charge card–A card that charges no interest, but that requires you to pay your bill in full each month.

Charged-off–Loans or credit card debt written off as uncollectible from the borrower. The debt, however, remains valid and subject to collection.

Checking account–Money kept in a bank or savings and loan for safekeeping. Money can be easily withdrawn by writing checks or using an ATM machine or debit card.

Closed-End loan–A loan in which money is borrowed in one lump sum for a specified period of time.

Closing cost–Fees paid at the closing of a real estate secured loan. These may include an appraisal fee, title search and insurance, survey, taxes, deed, recording fee, credit report charge and other costs assessed at settlement.

Collateral or security–An asset pledged to ensure payment of debt.

Compound interest–Interest computed on the balance of a loan, in which the balance includes all unpaid interest.

Co-signer–A person who signs a loan agreement along with the borrower and assumes equal responsibility for repayment.

Credit–A promise to pay at a later date for goods or services purchased today.

Credit application–A written request for credit, generally in a form specified by the lender. Sometimes, an application fee is charged to cover the cost of loan processing.

Credit bureau–A company that compiles credit histories on prospective borrowers and provides credit reports to lenders. Lenders use these reports when making decisions on extending credit. The three major credit reporting agencies are Equifax, Experian and TransUnion.

Credit card–A plastic card issued by a bank authorizing payment for purchases. Interest is charged on the outstanding balance.

Credit counseling–Professional counseling provided by organizations who help consumers find ways to repay their debts - through careful budgeting and management of money.

Credit limit–The maximum amount of money that may be charged on a credit card account.

Credit line (Or personal line of credit)–The maximum loan amount a consumer can borrow against in an account. As a credit line is partially or fully repaid, the consumer can borrow against the account again.

Credit report–A record of someone's credit history, including debt repayments, late payments and any bankruptcies that is compiled by a credit reporting agency.

Creditor–A person or business from whom you borrow, or to whom you owe, money.

Currency exchange–A business that provides a number of services for a fee, such as license plate renewal, check cashing and fund wiring.

Debit card–A plastic card issued by a bank and used for making purchases. The purchase amount is deducted directly from one's checking account.

Debt–Money owed to another party.

Debt consolidation–A strategy sometimes used by consumers to better manage their debt problems. Rather than paying off several separate bills each month, a consumer consolidates his or her debts with a financial institution that will arrange for one lower monthly payment extending over a period of time.

Default–Failure to repay a loan or otherwise meet the terms of a loan agreement.

Delinquency–Failure to make payments on time.

Discretionary income–Individual or family earnings not allocated for necessities such as food and shelter.

Down payment–A sum of money put down to buy a house, car or other large item. This amount is deducted from the balance of the loan that finances the purchase of the item.

Equal Credit Opportunity Act–A federal law prohibiting lenders from discriminating against applicants for credit.

Equity–The market value of a person's home or real estate, less the value of all existing liens.

Fair Credit Reporting Act–A federal law giving consumers the right to learn what information credit reporting agencies have on file about them, and to dispute any inaccurate data in the file.

Fair Debt Collections Practices Act–A federal law to protect consumers from any harassing or abusive conduct, the use of false or misleading representations or unfair practices in the collection of debts.

Federal Deposit Insurance Corporation (FDIC)–A federal agency that insures consumer deposits in a bank or savings and loan for up to $100,000 per account. Deposits include checking and savings accounts and certificates of deposit.

Finance charge–The cost of credit expressed as a dollar amount.

Fixed interest rate–An interest rate that does not change over the term of the loan.

Foreclosure–A legal process in which property that is collateral or security for a loan may be sold to help repay the loan when the loan is in default.

Grace period–A period of time in which a borrower can pay off the full balance of their credit account without incurring additional finance charges.

Home equity loan–A loan secured by a person's home.

Installment loan–A loan in which the amount of payment and the number of payments are predetermined.

Interest–The dollar amount a lender charges a customer for borrowing money.

Interest rate–The rate that lenders charge their borrowers for the privilege of borrowing money.

Judgement–An official decision made by a court related to a lawsuit.

Late payment fee–A fee charged for a loan payment not received by the due date.

Lease–A contract that allows a consumer to use an asset, such as a car, in exchange for payment. At the end of the lease term, the asset must be returned.

Lender–A person or business from whom one borrows, or to whom one owes, money. Also referred to as a creditor.

Liable–Having (legal) responsibility.

Lien–A claim placed by a creditor on a piece of real estate or property, to ensure the payment of a debt.

Loan–An amount borrowed to be repaid at a later date, with interest.

Loan agreement–A contract that spells out in detail the terms and conditions of a loan.

Loan to Value ratio (LTV)–The ratio of money borrowed on a property to the property's fair market value.

Maturity date–The date on which final, or last, payment on a loan is due.

Minimum payment–The smallest amount a borrower must pay each month on a loan or credit card account.

Mortgage loan–A loan used for the purchase of a home. The home serves as security, or collateral, for the loan.

Origination fee–A fee charged by a lender to cover the cost of processing a credit application and investigating a borrower's credit history, as well as legal and other expenses.

Prepayment penalty–An additional fee a lender may charge if a borrower pays off all or part of the loan balance before it is due.

Public record–Information obtained from local, state or federal courts indicating a person's history of meeting financial obligations, including alimony and child support.

Refinance–Paying off an existing loan with the proceeds from a new loan.

Repossess–Forced or voluntary surrender of merchandise as a result of a consumer's failure to repay a loan as promised.

Right of recision–A borrowers right to cancel a contract within three business days.

Savings account–Money kept in a bank or savings and loan association for safekeeping. Savings accounts earn interest on all money kept in the account.

Savings bond–A government bond that earns interest, issued in face value denominations from $50 to $10,000. Interest on the bond accumulates tax free.

Secured loan–A loan in which a borrower pledges an asset such as a home or car that may be sold if the borrower is unable to repay the loan.

Simple interest–Interest computed on the principal balance outstanding as long as any portion remains unpaid.

Title–A legal document that provides evidence of property ownership.

Truth in Lending Act–A federal law that requires lenders to disclose to the borrower the true cost of a loan, including the actual interest rate and all terms and conditions of the loan, in a manner that is easily understood.

Unsecured loan–A loan granted based only on the borrower's promise to repay.

Variable interest rate–An interest rate that changes based on an index, such as the prime rate.

Yield–The percentage rate-of-return paid on a stock in the form of dividends, or the effective rate of interest paid on a savings or money market account or bond.

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