

## Need Credit Help?

If you sense that you're sliding into financial trouble, or if you're receiving letters from your creditors, it's time to get some control over your financial future:

- **Contact your family immediately.** They may be willing to bail you out—this time. Discuss the situation with your financial aid administrator—he or she will be able to provide guidance. Then, prepare to face your creditors. The very worst thing you can do is avoid your creditors' calls and letters.
- **Cut expenses.** Start with the things that will disrupt your life the least, like eating out and movies and other recreational expenses. Keep in mind, the more you are in debt, the more you'll have to slash your expenses.
- **Work out a new payment schedule.** In banking terms, this is called restructuring. It's possible that your creditors would rather accept a lower payment from you than be forced to repossess your computer, for example, or to take other legal action. When you contact your creditors, be honest—tell them why you can't make your payments and the

amount you can afford to pay each month. Once the new terms are established, you must stick to them religiously or you may never get credit again.

- **Rebuild your credit rating.** A restructured credit agreement may show up as a bad mark on your credit rating. To ensure that your future creditors do not misinterpret your credit report, be sure to include a statement in your credit history that explains the circumstances of your restructured debt.
- **Avoid "credit-fixing" companies.** No one can "fix" your credit. The only things they can do are the steps described above, which you can do on your own. If you feel you need help, contact a legitimate agency such as the National Foundation for Credit Counseling (NFCC).

Check out these Web sites for more information about using credit responsibly:

- *Federal Trade Commission:* [www.ftc.gov/consumer](http://www.ftc.gov/consumer) and [www.ftc.gov/gettingcredit](http://www.ftc.gov/gettingcredit)
- [www.truthaboutcredit.org](http://www.truthaboutcredit.org)
- [www.debtadvice.org](http://www.debtadvice.org)

## Credit Warning Flags

If you don't pay your bills on time, collection agents and your creditors (the people you owe) will send threatening letters and call you. They may even sue you!

Are you heading for financial disaster? Check out these tip-offs:

- You've borrowed to the max of your credit limit.
- The amount you owe increases each month.
- You're just barely able to make the minimum monthly payment.
- You're using a credit card for essential living expenses such as groceries and clothing.
- You're using one credit card to make payments on another credit card.
- You're taking cash advances on your credit cards to make other credit card payments.
- You're spending 15 percent or more of your monthly income on credit card payments.



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# Credit Card SMARTS



There are many reasons you might get a credit card: convenience, a good credit rating for the future, use in emergencies, extras like airplane miles and purchase protection, or a free T-shirt!

While credit cards are not bad on their own, they can be your fast track to financial trouble. Read on to learn what you need to know to make smart credit card decisions and avoid the credit trap. ►



## Avoid the Credit Trap

Once you obtain a credit card, be careful not to get in over your head in credit card debt! Excessive debt could cause you to have to work while you're in school to make ends meet, or even to drop out. Negative marks on your credit report can prevent you from getting a job, your first apartment, a car, or a loan for graduate school! Negative items on your credit report remain there for seven years and can seriously affect your opportunities after you graduate from college. And if your credit debt causes you to default on a student loan, it will stay on your record forever.

Follow these principles to help you stay on top of your credit cards:

- **Ask yourself how you'll pay the bill.** Are you expecting income from a job or some other source or are you just figuring that you'll deal with it when the bill comes?

## What to Look For in a Credit Card

There are a few major things you should look for when shopping for the best credit card. Think your decision through carefully and always read and understand the fine print, especially if it's next to an asterisk!

### Interest Rate

Here's where most companies sell you on their card. The interest rate is what the company will charge you on your unpaid balance. They often promise a low introductory rate like 2 percent that seems incredible. Just remember that these companies have to make money on you to stay in business, so that rate will not last forever or come without strings attached. Often it will jump to 18 percent or higher! Ask the following questions:

- How long does the introductory rate last? What is the interest rate after the introductory period?
- Is the interest rate variable or fixed? Will the rate fluctuate according to the financial market or will it stay the same regardless of the market?
- On what conditions is the interest rate based? Will

the rate go up if you make a late payment? What if you miss a payment to another company?

- Is the rate offered based on your specific credit rating or will the company compute your actual rate once you apply?

### Fees

- Is there an annual fee?
- Will you be charged a late fee? How many days are considered "late"?
- Is there a fee for charging more than your credit limit?
- Is there a cash advance fee? (Beware: The cash advance is a HUGE credit trap!) Is there a different interest rate and/or a grace period for a cash advance?

### Grace Period

- How long do you have to pay off a charge before the company charges interest on it?
- Will you have a grace period if you carry a balance from month to month?
- Do you understand how the grace period works?

- **Don't buy things you can't afford.** A credit card is not an extra \$1,000 someone has handed you. It's \$1,000—or whatever your maximum is—that will be paid with your money. Even if it seems like a great deal at the time, that \$50 purchase can end up costing a lot more if it sits on your credit card and accrues interest.
- **Limit yourself to one card with a low spending limit.** If you have just one card with a low limit, it will be easier to avoid overspending.
- **Avoid impulse buys!** Often the things we buy with credit are not planned purchases. We see something and we just have to have it. Try leaving your credit card at home when you go shopping. That way, you'll spend only the money you have, not the money you wish you had. If you're still dying for that item the next day, go back to the store and get it. Chances are, you won't be and you will have saved yourself some money.

- **Pay your balance each month.** There's nothing wrong with having the convenience of a credit card if you can pay the balance each month. However, if you can't, that means you're spending money you don't have. The credit card company charges significant amounts of money to hold that balance for you. If you can't pay the entire bill, at least pay more than just the minimum. If you only pay the minimum, the balance will run up hefty amounts in interest and take years to pay off!
- **Pay your credit card bills on time.** Paying on time means that you avoid late fees, and that you won't have negative items on your credit report for missing your due dates.
- **Consider using a debit card instead of a credit card.** A debit card acts the same as a credit card, but the money comes directly out of your checking account. With a debit card, you have the convenience of a credit card, but you can only spend money you actually have in the bank.