Credit In A New Country:
Your Guide To Credit In The United States

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Knowledge of Financial Education

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When debt is the problem, we are the solution.

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What you need to know about credit when you are new to the United States

Establishing good credit is often frustrating for those who are new to this country and don't understand how the system works. Establishing credit is a critical component for financial survival. For instance, if you do not have a credit history you will not be able to have your electric or telephone turned on in your home in many states unless you pay a hefty deposit. If you are not careful, you may fall for credit scams that can cost consumers a lot of money. This publication is designed to help you understand how credit works, how to get credit, and avoid expensive traps.

An Overview

Credit allows you to:

- Buy now, and pay for the item later
- Make large purchases and pay for them over time
- Build a good credit rating if you pay your bills on time

There are two main types of credit:

Installment loans let you borrow a fixed amount and pay it back in fixed monthly payments. A good example is a car loan, where you will borrow enough to buy the car and then pay it back over two to five years.

Revolving accounts or "lines of credit" give you a certain amount you can borrow against (your "credit limit"). You can usually then pay the balance off in full or make smaller minimum payments. A good example of a revolving account is a credit card.

Warning! The minimum required payments on most credit cards is so small that even a balance of $500 -- $1000 can take years to pay off if you only make the minimum payment each month.

Some loans are secured which means you pledge collateral the lender can "repossess," or take back, if you don't pay the loan as agreed. Most car loans and home loans are secured loans. Other loans, especially credit cards, are unsecured, which means there is no collateral for the loan. Unsecured loans can be harder to get because there is nothing to back up the loan, other than your promise to pay.

Getting Approved

One of the reasons credit is so widely available in the United States is because we have a strong credit reporting system. Credit reporting agencies (also known as "credit bureaus") are companies that collect information about how consumers pay their bills, and sell that information as credit reports to businesses that may use them for credit, insurance, or employment purposes.

Credit reports contain four basic categories of information, including personal information (name, current and previous addresses, Social Security Number), account information (credit accounts you've held, the most you've borrowed, the current balance and whether you've paid on time), public record information (bankruptcy, court judgments or tax liens) and inquiries (the names of companies that have looked at your credit rating in the past two years).

Equal Credit Opportunity Act

Under a federal law called the Equal Credit Opportunity Act, creditors cannot discriminate against you because of your age, gender, marital status, race, or country of national origin.

Types of accounts typically included in a credit report include:

Credit cards
Department store cards
Gas company cards
Bank loans
Auto loans and auto leases
Recreational vehicle loans
Mortgages
Consumer finance company accounts
Credit union credit cards or loans

Types of accounts that traditionally do not appear on a standard credit report:

Rent payments
Rent-to-own accounts
Payday loans or loans from check cashing outlets
Checking account information
Accounts with smaller lenders
Debit cards

Some creditors will only report your account if you are late on your payments, but not if you pay on time. Cellular phone companies are a good example of this. They generally only report accounts that have not been paid and have been turned over to collection agencies. The same is true of most medical providers. Since companies are not required to report information to credit reporting agencies, not all do. Some will report to one or more major credit reporting agencies, but not all three of them.

When you are establishing credit, your goal should be to get accounts that will be reported each month to all three of the major credit bureaus. Be sure to pay each bill on time or you may risk a late payment on your credit report. Late payments stay on your report for seven years and make it more difficult to get credit at good rates and terms.

It's In the Numbers

When you go into many retail stores in the U.S., you may be offered an opportunity to apply for a credit card "instantly." How is it that companies can offer credit on the spot? It's because they use credit scores that predict how likely someone is to pay their bills in the future.

Most credit scores are created by a company called Fair Isaac, which creates what are called "FICO" credit scores. To create a credit score, information in credit reports, account histories, or credit applications is evaluated to find out what consumers who pay their bills on time have in common and then they are assigned a number, and that is their credit score.

According to Fair Isaac, the factors that make up your credit score fall into five main categories:

Payment history	35%
Amounts you owe	30%
Length of credit history	15%
New credit	10%
Type of credit in use	10%

The most important factors in a score are your **payment history** and the **amounts you owe**. If you have few or no credit accounts that have been reported to the credit reporting agencies then you may have no credit score, or your score may be low due to little credit experience.

Credit scores usually fall between 350 and 850. A score below 650 is usually considered quite low (risky) and therefore it will be difficult to get credit at the most favorable terms. A score of 650 – 680 is still risky but credit is generally available at less favorable terms. A score of 680 – 720 is better, while a score of 720 and above is usually considered very good. Keep in mind that every creditor has its own policies, and each one may look at the same score differently.

Also, keep in mind that your credit score can be different, depending on which of the three major credit bureaus supplied the information used to create it, what kind of loan is being considered, and what formula each lender uses.

Note: Even though Equifax operates in Canada and Experian in England, the foreign credit reporting agencies do not share files with the U.S. You must establish your own credit history here.

Getting Started

Millions of Americans don't have credit histories because they haven't established credit with traditional lenders. These consumers may rent their homes or apartments, use check-cashing outlets for payday loans, or buy their furniture and appliances from rent-to-own stores. There are efforts underway to give these consumers some "credit" for paying those kinds of bills on time.

First, Fair Isaac Co., creator of the popular FICO scores (see below) has developed a new credit score based on information from companies that don't traditionally report to credit reporting agencies. If you haven't established a credit history with the three major credit bureaus, some lenders will be able to access one of these non-traditional FICO scores. At this time, it is not yet widely used but likely will be in the future.

Getting Your First Credit

To get your first credit card, you may need the following:

- Valid Social Security number or Tax Identification number (see below)
- Proof of your address, such as a copy of a utility bill in your name
- Proof of income such as a copy of recent pay stubs or W-2s
- A checking and/or savings account in your name. Every creditor has different requirements, so be sure to ask about the lender's minimum requirements before you apply.

Students

- Creditors are prohibited from providing credit to consumers under age 18 (unless they are emancipated under state law, or the consumer's parent or legal guardian is designated as the primary account holder).

- Creditors are prohibited from opening a credit card account for any college student who does not have any verifiable annual gross income or already maintains a credit card account with that creditor, or any of its affiliates.

- For college students who do not have a co-signer, the maximum amount of credit extended will be limited to the greater of 20 percent of the student's annual gross income or $500 dollars. The aggregate amount of credit extended from all of their credit cards will be limited to 30 percent of the student's annual gross income (for the recently completed calendar year).

Social Security numbers

Generally, to get a major credit card or other loans, you will need a valid Social Security number first. You can get a Social Security number from the Social Security Administration (www.SSA.gov) by filling out form SS-5. You can also visit a local Social Security office. You can usually get a Social Security number as long as you are eligible to work in the U.S.

If you are not eligible for a Social Security number, you may instead want to apply for a Taxpayer Identification Number (TIN) through the Internal Revenue Service (IRS). Visit www.IRS.gov or contact your local IRS office.

Secured Credit Cards

One of the fastest ways to get a credit card and establish a credit history can be a secured credit card. With a secured card, you place a deposit with the issuing institution. You will get a MasterCard or Visa card with a credit line that is usually equal to your deposit. You can use the card anywhere that MasterCard or Visa cards are accepted. Ideally, you should choose a secured card that reports your monthly payment history to all three major credit-reporting agencies. Visit www.BankRate.com or www.CardRatings.com for a list of secured credit cards.

Mortgages

It is possible to get a mortgage even if you don't have an established credit history. To learn how to buy a home for the first time, review the booklet titled: *Buying Your First Home and Getting Your First Mortgage.*

Traps and Scams to Avoid

Advance Fee Loan Scams: You should not have to pay a fee in advance to get a loan. The Federal Trade Commission reports that in one year nearly 4.5 million consumers paid advance fees but did not receive the promised loan or card. For more information on advance fee loan scams, or to report one, visit the Federal Trade Commission's website at www.ftc.gov (click on "consumer" then on "credit.")

Guaranteed Unsecured Credit Cards: Be very suspicious of cards that guarantee you that you will be approved. These come-ons usually fall into one of two categories:

1. Cards that may sound like major credit cards, but can only be used to buy merchandise from the companies' catalog. These cards usually are not very helpful in establishing credit. In addition, the merchandise may require large down payments, and be overpriced.

2. Cards that are major credit cards but carry very high fees. You may get a starting credit line of $300, for example, but the fees on the first bill may total $250 or more, leaving you with very little available credit. Unlike a secured card, where your deposit will be returned if you pay your bills, you will never get those fees back.

Payday Loans: Check cashing outlets will allow you to borrow against your next paycheck, for a fee. The fees on these short-term loans are so high, however, that the effective interest rate can be over 400%! In addition, if you cannot pay back the loan in full with the next paycheck it will be rolled over to the next, and you may end up in a vicious cycle where you are unable to ever pay off the loan.

Tips for Smart Credit Use

- Don't pay interest on items you don't really need, or for things that will be gone by the time you get your bill. Otherwise, it's the opposite of getting a bargain – it is like buying that item marked up instead of marked down!

- Read your credit card agreements and the correspondence you get from issuers. There may be important information in them. For example, credit card issuers can generally change your interest rate with only 45 days written notice – even on a card with a fixed rate.

- Always mail your payments for your credit cards at least 7 business days before the due date. Most credit card companies have steep late payment penalties. In addition, your interest rate on new purchases as well as any current balance may be raised to a very high rate if you are late.

- If you pay your debts late, a late payment will likely to be reported to the major credit bureaus and will stay on your credit report for seven years. Your other credit card issuers may raise your interest rates if they see you are falling behind on other accounts.

- Call the credit card company if you can't make a monthly payment on time. Ask them about alternative payment arrangements that won't damage your credit or raise your interest rate. A credit counseling agency can help you work out a payment plan with your creditors if you having trouble keeping up.

- Notify your credit card issuer 30 days before you move, and don't assume that just because you didn't get a bill you don't have to pay it. If a bill doesn't arrive, call your card issuer or lender immediately.

- Try to pay off your total balance each month. Just paying the minimum is a trap. If you pay-off a $1,000 debt on a card with an 18% interest rate, it will take you more than 12 years to repay.

- Aim to keep your debt payments at less than 10% of your income after taxes. If you take home $750 a month, for example, spend no more than $75 a month on credit.

To Order Credit Reports Contact Each Of the Following Credit Bureaus:

Equifax Corporation, PO Box 740241, Atlanta, GA 30374
(800) 685-1111 www.equifax.com

Experian, PO Box 2104, Allen, TX 75013
(888) 397-3742 www.experian.com

TransUnion, PO Box 390, Springfield, PA 19064
(800) 916-8800 ww.transunion.com

For a listing of credit cards:
www.bankrate.com
www.cardratings.com

Fraud & Consumer Complaints: **www.ftc.gov**
Social Security Administration: **www.SSA.gov**

To receive a Taxpayer Identification Number, contact the Internal Revenue Service: **www.IRS.gov**

Notes

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