

IMPERIAL VALLEY REGIONAL OCCUPATIONAL PROGRAM  
ACCESSING CAREERS THROUGH EDUCATION



# Understanding Credit

Credit is money that you borrow from a bank, store, or credit card company to pay for things you buy. You repay the money later. Some department stores also offer credit cards. A loan is another type of credit. A loan is money you borrow from the bank to buy something special, like a car. You pay it back in monthly payments. You also pay the bank **interest**, a charge for borrowing money.

*Andy recently was approved for a credit card and used it to buy a pair of jeans. A month later, Andy got a bill from the credit card company for \$70 (that was the total amount he spent). However, the bill said the minimum payment was only \$25. Andy paid the minimum payment and would pay the other \$45 later. The next month, the credit card company sent Andy a second bill. It was for \$45.90. The extra \$.90 was for interest. The minimum payment on the second bill was still \$25, so Andy paid that. Andy thought his next bill would be for \$20.90, but it was for \$21.66. The credit card company was adding more interest every month!*

## Credit Cards

Credit card companies are in business to make money. Compare these fees from different company offers before you make any decision. There are 3 general fees that credit companies will charge:

**Annual Fee:** This is a fee you pay the credit card company every year to use its card.

**Interest:** Credit card companies make most of their money by charging interest. The companies hope you will not pay your entire bill every month and charge them interest on the rest of their bill. The interest can be as low as 5.9 percent or as high as 25 percent.

**Late Fees:** Many credit card companies also charge late fees. This happens when you miss or do not send the minimum payment to the company. Credit card companies can charge \$10, \$26, and up to \$35 depending on the type of late fee.

## How to Start a Good Credit History

You can start developing good credit history after you have maintained your job for at least 6 months. Here are different ways you to start establishing your credit:

- Apply for a credit at a local store or for a low-cost cellular phone service
- Buy something small and affordable (But don't buy more than you can afford)
- Be sure to pay your **entire** bill when it comes in the mail.
- Repeat process occasionally and make sure to pay off the **entire** amount on the bill.

You can also ask your bank or any other local bank if they offer any “Student Credit Card Programs” for college students. You might have a better chance if you have been a member of the bank for some years. Sun Community offers a Visa Starter Program if you show proof of good monthly income.

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**SECURE CREDIT CARD**

You can also start credit with some banks that offer a “Secure Credit Card.” You need to pay a deposit (Approximately \$300) and an annual fee. You will have a stricter than usual spending limits and balance but this will be higher after you show that you are a responsible consumer. Union Bank and First Imperial Credit Union offer these programs to help you start building a positive credit rating.

**FIRST IMPERIAL CREDIT UNION (Must be 18 yrs. Old)**

- **Open a savings account (\$5.00)**
- **Deposit \$400 into “Secure Credit Card”**
- **It takes 7-10 days to receive card**
- **Will have credit card with \$300 limit and a 13.9% rate**
- **The other \$100 will be added to your limit in a year**