

Keep Good Credit ON YOUR SIDE

BY TOM GRAVES



UNLESS you're a miser who has never been tempted by the "buy now, pay later" allure of credit cards, you may have experienced the bill shock of finding out you maxed out your credit card before you knew it, or ran up a month's worth of bills that will take a lot longer than a month to pay off. Then you know it's time to put that card away and slide another card into your wallet — if you have another card.

Once you get one credit card you're bound to receive offers for more, and provided you can manage credit cards responsibly, there are valid reasons to have at least two or three credit cards, even if you only keep one for regular use at a time.

Here are just a few:

Credit rating: Even having cards you seldom use enhances your debt-to-credit ratio, which is one factor in your credit rating scores.

Everyday use versus emergencies: Keep one card for unplanned emergency funds, and one or more cards you use regularly.

Use one, pay off the other: If you get in too deep using one credit card, put it away and use a second card just for necessities or emergencies while you pay off the first. This strategy works as long as you avoid "see-sawing" debt from one credit card to another.

Avoid late payment fees: Having multiple cards makes it easier to negotiate with banks over fees for occasional late payment.

INTERESTING RATES

U.S. service members have the opportunity to apply for credit cards at privileged interest rates, and your on-base finance office can help you find ways to get a low interest loan if you need to pay off higher interest credit cards.

In spring 2008, AAFES introduced the Military Star Rewards Card, which is co-branded between AAFES and Chase MasterCard. The annual percentage rate on purchases were locked in at 4.99 percent above the prime lending rate, which means the interest rate was 10.24 percent when the card was first offered, well below what many first-time credit cards charge, which can have rates that often go up to 22 to 24 percent or more.

The Star Rewards Card also has a point system for cash back, airline tickets or exchange gift cards. Cardholders gain two points for purchases at military exchanges and one point for other stores on or off base.

"The Military Star Rewards program finally allows the exchanges to offer the ultimate convenience to authorized shoppers: two lines of credit and only one card," said Mike Howard, AAFES chief operating officer. "With that said, the Military Star Rewards card is not a replacement for the Military Star card. In fact, authorized exchange shoppers who currently have a Military Star card and sign up for the new card will receive two different lines of credit to provide maximum flexibility when choosing a method of payment."

U.S. Navy service members can obtain a Military Star Card with similar rates. The NEXCOM Website also has information on building credit scores and finding sources of help for financial aid or advice, including finance classes and no- and low-interest loans that can help pay off credit card debt. One key point the NEXCOM Website makes is that credit mistakes create history that can be replaced by good credit decisions.

"If you have had poor credit performance in the past,

credit scoring doesn't allow that to haunt you forever," the NEXCOM Website states. "While recent good payment history enhances your credit score, past credit problems fade with time."

USAA offers members a USAA American Express Card or Platinum Master Card, with annual percentage rates as low as 7.75 percent. However, interest rates reach as high as 18.90 percent for cardholders with questionable credit scores. There is no annual fee and you build reward points for cash, gift cards and airline discounts.

In addition, USAA offers personal loans at rates as low as 11.25 percent with three- or four-year terms, which could give you some time if you need to consolidate credit card debt and pay it off over time at a lower interest rate than your credit cards charge.

At the time of this writing, loans at 9.95 APR for between \$500 and \$10,000 were made available to U.S. service members with acceptable credit ratings through Pioneer Financial Services.

USING CARDS WISELY

As cardholders soon learn once they get their first credit card, it's seldom the big purchases that make your credit card bill get out of hand. Those expenditures you remember. It's the smaller day-to-day purchases, restaurant meals and convenience store trips that come back to haunt you because they can quickly add up to several hundred dollars over the course of a month.

While you're building up a credit history, one good policy is to use your card mainly for necessities. You aren't likely to go out on a gasoline shopping spree, so using your card to fill your gas tank is limiting card usage to money you would spend anyway. Just make it a point to pay off necessity spending every month.

"The key for those with little to no credit history is to build it wisely and slowly," said Karen Von Der Bruegge, Chief Marketing Officer for Pioneer Services. "The easiest way for them to do so is to get a credit card with a decent credit limit (about \$2,000) and a grace period for new purchases.

Then, charge no more than \$100 a month—or even less—and pay the bill in full each month. This does three things that help a credit score: by keeping the monthly charge amount at an affordable level and paying the bill in full, the service member shows the ability to pay his or her debt; the grace period prevents interest from accruing, or at least limits how much is charged; lastly, it keeps the amount of credit available versus the amount used at a very low level. This is a vital part of the new FICO 08 scoring model introduced last year."

BOOSTING YOUR CREDIT CARD RATING

The longer you own credit cards and make on-time payments, the better your credit rating will be.

"The two biggest factors in determining your credit score are your payment history and how much you owe," said June Walbert, Certified Financial Planner Practitioner with USAA. "These two things alone

determine a whopping 65 percent of your score. The most effective way to drive up your score is to start making timely payments now and catch up on anything that's past due.

Ensure your total balance owed relative to total credit available is below about 35 percent; otherwise, you may appear to be a big spender who has difficulty managing money."

Late payments can damage your credit, as can having accounts closed by the bank because you've missed too many payments. But opening more than one card over the course of a year or two can improve your credit score. A big part of your score depends on your debt-to-credit ratio, as in how much you owe compared to how much you would owe if you maxed out your cards. The higher the ratio the better your score.

For instance, if you owe \$400 on credit cards, but have a combined credit limit of \$4,000, you would have a 1-to-10 debt-to-credit ratio, which would punch up your credit rating and help you get preferred rates on home

loans, car loans or other credit cards.

If you maxed out all your cards and are only making minimum payments on them, your debt-to-credit ratio would be approximately 1-to-1, which would be a warning sign to potential lenders.

AVOID PAYING LATE FEES

Late payments will also ding your credit, so it's better to pay less money on time than more money late. Banks also charge late fees, and those have shot up from \$10 to \$15 for each late charge just a few years ago to \$40 to \$50, depending on the bank's credit card policy. Banks used to charge late fees only if the payment was more than two weeks late, but now a payment even a day or two late can incur a fee, so if you pay by mail, send it early.

BACK IN THE BLACK

If you find yourself behind in payments on more than one card, put them all away in a safe place and start paying off as much as you can on the one with the highest interest rate, while making minimum payments on the others. Once the first card is paid off, focus on the one with the next highest interest rate, and so on, until you can climb out of debt. Chart your progress so you can anticipate when you will be out of credit card debt. Even if it's a long way off, it's good to see the light at the end of that debt tunnel.

Even an installment loan with initial up front costs can save you money in the long-run if the interest rate is a percentage point or two better than your credit card rate. Having a term to pay off the loan also lets you know when the debt will be amortized.

"Credit card minimum monthly payments often cover little more than periodic interest," states an article in Pioneer Financial Services' Website Learning Center. "It can literally take years to take off a credit card balance. Without a fixed term, an important component of an installment loan, the borrower does not have a plan to get out of debt."

The risk of a loan to consolidate credit card debt is that the cost

savings may be negligible if your credit history is spotty, which would make it difficult to get a loan at a preferred interest rate.


"I typically don't recommend consolidating credit card debt via a personal loan," said Walbert. "The top reason for carrying credit card balances is a lack of discipline in spending and not using an effective budget. Using an unsecured loan to consolidate debt does not address the root problem. Without addressing the core issue, running up balances again is a real possibility."

Fortunately, your on-base finance office has resources for you to get help in getting credit card debt paid off. These may come in the form of low- or no-interest loans, consolidation loans and educational resources about financial planning.

Also, on base, banks such as DoD Community Bank, make personal loans for service members and have financial advisory resources on many bases overseas, as well as in CONUS.

"DoD Community Bank offers a variety of informational materials on saving, borrowing, budgeting, investing and other financial concerns. Many of these materials are also available online including a number of calculators to assist in individual and family financial planning," said Steve Burghardt, manager of DFAS corporate communications. "Of course, account holders with particular needs or concerns are always welcome to visit their branch manager to discuss their financial concerns."

By avoiding spending sprees and keeping a close watch on your credit card purchases, you can establish or improve your credit rating. If you get into credit card debt and struggle to get out, remembering how tough it was to get out of debt will be good incentive to keep you from falling into that trap again, or even better, motivate you to start saving money so you "borrow" only from yourself.

"In addition to assisting military members and their families on credit issues, the DoD Community Bank also conducts a continuous Military Saves campaign to educate account holders, on the benefits of saving money," Burkhardt said. 

Online resources:

www.usaa.com

Look under the products and services menu for information on how to obtain a USAA American Express Card, A USAA Platinum Master Card, or personal loans. The Website's Debt Analyzer tool provides individualized guidance to help members know if they have too much debt, how to turn bad debt into good debt, how to pay off loans faster and ways to spend wisely.

www.aafes.com

Find information on the AAFES Military Star Rewards Card, good at AAFES exchanges and anywhere MasterCard is accepted. Cardholders build rewards points for gifts and travel opportunities.

www.navy-nex.com/military_star/buildingcredit.html

Find information on the Military Star Card as well as resources for building credit and sources for help in credit repair.

www.pioneermilitaryloans.com

A division of MidCountry Bank, Pioneer Military Lending's Website includes its Learning Center with articles about credit and loan options. Bank offices have Certified Credit Report Reviewers and Identity Theft Prevention Specialists who can go over a service member's credit report and show where there are problems and how to fix them.

www.dodcommunitybank/home/resources

A service of Bank of America, DoD Community Bank offers financial services at military installations overseas. Its services include automated payments, car loans and signature loans.

www.annualcreditreport.com

Obtain a credit report online for free, and other credit reporting sources on a fee basis, through Equifax, TransUnion or Experian.