

Beginners Guide to Credit

What is Credit?

Credit is borrowed money that you can use to purchase things you need when you need them and then repay the funds back at an agreed on time. For example, when you pay for something with a credit card, you are borrowing money from the issuer, with the promise that you will either repay it all or make the minimum payment requested when the bill comes. If you don't pay it in full, the remaining sum will "revolve" – move onto the next month's bill. Interest will be added to the balance, and will continue until the debt is paid.

Example: You charged \$500 for school books and materials, but can only pay \$25 a month. If the interest rate on your credit card is ten percent, it will take you one year and ten months to repay – plus \$49 in interest. However, if the interest rate is 22 percent, it will take two years and two months to repay, plus \$129 in interest.

How you use credit matters! If you want to finance a car, get a cell phone contract, rent an apartment, obtain a job, qualify for low insurance rates, and (one day) buy a home, you will need to treat credit right – not just now, but over the long term.

What Is My Credit Score and How Does It Affect Me?

A credit score is a mathematical risk assessment based on the information available in your credit report. It does not factor in such information as income, employment, age, sex, and race.

Who's keeping score? The credit industry is. Every time you apply for a new credit card, auto loan, mortgage, perhaps even an insurance policy or a job, your application is judged in part on your credit score.

There are three major credit-reporting bureaus in the U.S.: Trans Union, Experian, and Equifax. These companies collect credit-related data, compile it into reports, and then provide it to businesses that need to evaluate lending risk and make other business decisions. Your credit and debt information will be on these reports in detail, including when you opened the accounts, if you've paid on time, how much you owe, if accounts have gone into collections, your credit limits, and if you have been sued for a debt. A high score is important, as lenders will look to it to assess their risk in lending you money.

Think being graded ends with school? It doesn't. The way you treat credit is graded (scored) all your life. A common scoring model is one developed by Fair, Isaac and Company. They issue a FICO score that ranges from 300 to 850. It is based on (in order of greatest weight) payment history, amounts owed, length of credit history, pursuit of new credit, and types of credit in use. High scores translate into cheaper loans and increased edge for employment and housing opportunities.

In 2005, the federal Fair Credit Reporting Act requires all three major credit bureaus to provide you a free credit report, at your request, every 12 months. Working together, the bureaus have established a single web site and phone number to meet this requirement. As a best practice, you should get a copy of your credit report once every four months from one of the credit 3 reporting agencies. Contact www.annualcreditreport.com or 877-322-8228 to get a free copy of your credit report.

If your score isn't where you want it to be, the good news is that you can take steps to improve it.

- **Obtain copies of your credit report** from all three major credit reporting agencies to check for and correct errors.
- **Pay down your debt.** If you can't pay the total balance each month, pay more than the minimum required payment.
- Pay on time, every time.
- Avoid aggressively transferring balances to new cards.
- Keep your credit card balances well under the maximum available limit.
- **Only apply for and have the credit you need.**
- **Repay collection accounts, judgments, and liens.** Recent information matters most – so the faster you do all the right things, the faster you can repair damage.
- **And avoid "credit repair clinics," as they can't do anything you can't do for yourself for free.**

Equifax: 1-800-525-6285 - equifax.com **Experian:** 1-888-EXPERIAN (397-3742) - experian.com **TransUnion:** 1-800-680-7289 - transunion.com

How Do I Establish Credit?

Getting started can be a challenge. After all, without a credit history to assess, how will a credit issuer be confident you will repay what you borrow? They don't, the following are a few factors that a lender can examine to determine your risk factors:

- **Checking Account.** You don't need a credit score in order to open a checking account at your local branch. Since it doesn't require credit to open, it also doesn't get reported to the credit bureaus to establish any credit. Even so, your account history can be a vital component when lenders consider giving you a credit card or loan for the first time.
- **Employment history.** Another important factor lenders look at is your employment history. They want to see if you are able to hold a job or if there are periods of unemployment. Your ability to hold a steady job can improve the likelihood of getting approved.
- **Residence history.** Lenders will also look to see how often you move and whether you rent or own. As with employment history, it pays to have a stable residence. Owning a home, even if just jointly with a spouse, carries some weight as well.
- **Utilities in your name.** Even without a credit history, it is possible to sign up for many utilities in your own name. Having an electric or gas bill, telephone, cable, or water service in your name also helps. Just having your name on these accounts won't establish a credit score, but it can be helpful for first-time borrowers.

Keep in mind that you can't build credit without using it. Having several (two to four is a good rule of thumb) active credit instruments shows capacity and responsibility. Balance is key! Too many unused open accounts shows potential for high future debt, which can lower your score, while too few accounts can also have a negative impact because you won't have a long history of responsible credit use.

Terms to be familiar with when it comes to credit and credit cards are:

- **Annual percentage rate (APR).** Is expressed as a single percentage number that represents the actual yearly cost of funds over the term of a loan. The lower the APR (the interest you are charged on balances), the less you'll pay to hold onto debt.
- **Grace period.** A grace period is the number of days you have to pay your bill in full before interest is added.
- **Credit Limit.** Credit limit is the maximum amount of money that a lender will allow a card holder to borrow on a single card.
- **Minimum Payment.** The minimum payment is the minimum amount that you as a card holder are required to repay each billing period on an open balance. As a card holder can make a payment that is in excess of the minimum payment due.
- **Cash advance fees.** A cash advance fee is the fee imposed when you take out a cash advance against your credit limit. The method of obtaining the cash (cash advance) can range from using the credit card in an authorized ATM to presenting the card in person at an authorized lending institution. Though you may be able to take cash out from your account, it is best avoided.
- **Balance transfer fees.** A balance transfer fee is a fee that is charged when you transfer the balance from one credit card to another.
- **No annual fee.** An annual fee is a fee charged by the credit card company for the convenience of having and being able to utilize the credit card.
- **Penalty fees.** A penalty fee is a fee that is charged if you pay after the due date or go over your credit limit.

Once you have a credit card, use it wisely:

- **Stay out of debt.** It doesn't take long for a few purchases to add up to hundreds, even thousands, of dollars. Never charge more than you can afford to repay by the time the bill comes in. To avoid overspending, keep a record of all credit card purchases you make during the month, with a running total of what you've spent. When you reach the amount you can afford to pay off, stop using the card until the next month rolls around.
- **Pay more than minimum payment due.** If you absolutely can't pay the entire balance, at least pay more than the requested minimum payment. Because the minimum due is often very low (usually between two to four percent of the balance), you'll drag the debt out for many, many years if that's all you pay.
- **Pay on time.** Miss a payment cycle and your credit history will take a quick and hard hit and. if you fail to pay by the due date you will have to pay that late payment fee.
- **Limit the number of cards you have.** Only apply for the plastic that you absolutely need. The more open credit lines you have, the more you'll be tempted to spend beyond your means. Also, too many applications can hurt a credit score.

What Is Personal Property Tax and Who Must Pay It?

Personal Property Tax is an annual tax that is imposed on real property, such as a house or land and personal property. Personal property consists of automobiles, pickup trucks, recreational vehicles, boats and motors, motorcycles and all-terrain vehicles. They are imposed according to item value only. Personal property taxes do not include furniture and household possessions. Local county tax assessors and collectors calculate and collect all personal and real property taxes. Revenue derived from personal property taxes supports your local government agencies.

How Do I Register My New or Used Vehicle?

Massachusetts law requires that motor vehicle owners must register their vehicle with the Massachusetts Registry of Motor Vehicles before taking it on the road. Both new and second-hand vehicles must be registered, regardless of whether they are purchased from a dealer or an individual. In addition, new Massachusetts residents who have registered their vehicle in another state must register their vehicle in Massachusetts. The initial vehicle registration must be done in person, and registration renewals must be done annually, either in person, online or by mail or telephone.

For Vehicles Purchased from a Non-Dealer:

1. Contact a state licensed insurance agent and collect an active insurance policy from him. Ask the agent to complete and stamp your Application for Registration and Title (RMV-1). If there is a lien on the vehicle, ensure that all lien holders' information should

be mentioned.

2. Visit a full service RMV branch office, and bring the completed title/registration form with you. In addition, you will need to provide proof of insurance, the previous owner's Certificate of Title or the previous registration and bill of sale that are exempt because of their age.
3. For vehicles that have been registered in another state, you must also bring the original, out-of-state title. If the title is unavailable, bring the registration document, along with proof of sales tax payment.
4. You must get a vehicle inspection sticker within 7 days of your vehicle being registered.

For Vehicles Purchased from an Out of State Dealer:

1. Contact a state licensed insurance agent and collect an active insurance policy from him. Ask the agent to complete and stamp your Application for Registration and Title (RMV-1). If there is a lien on the vehicle, please ensure that all lien holder information is mentioned.
2. Visit a full service RMV branch office, and bring the completed title/registration form with you. In addition, you will need to provide proof of insurance, a Certificate of Origin (if it is a new vehicle), Dealer reassignment if needed or the previous owner's title or the Bill of Sale and proof of registration if it is a vehicle that is non titled and exempt due to age.
3. If you are submitting the Certificate of Origin or the Bill of Sale, ensure that the selling date, purchase price and odometer reading are mentioned at the back of the form. The dealer and you must sign at the back of either form.
4. For vehicles that have been registered in another state, you must also bring the original, out-of-state title. If the title is unavailable, bring the registration document, along with proof of sales tax payment.
5. You must get a vehicle inspection sticker within 7 days of your vehicle being registered.

For Vehicles Purchased from a Massachusetts Dealer:

1. Ask the dealer to complete and stamp your Application for Registration and Title (RMV-1).
2. Contact a state licensed insurance agent and collect an active insurance policy from him. If there is a lien on the vehicle, please ensure that all lien holder information is mentioned. Luso Federal Credit Union requires full insurance coverage on your vehicle when applying for a vehicle loan.
3. Visit a full service RMV branch office, and bring the completed title/registration form with you. In addition, you will need to provide proof of insurance, a Certificate of Origin (if it is a new vehicle), Dealer reassignment if needed, or the previous owner's title or the Bill of Sale and proof of registration if it is a vehicle that is not titled and exempt due to age.
4. If you are submitting the Certificate of Origin or the Bill of Sale, ensure that the selling date, purchase price and odometer reading are mentioned at the back of the form. The dealer and you must sign at the back of either form.
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REGISTRATION FEES

When registering your vehicle at the RMV branch office, you will be required to pay certain fees, typically as follows:

1. The registration fee, which varies depending on the manufacturer's model year or the vehicle's total weight.
2. Title application fee which is \$50.

There may be additional fees when you register, depending on your county. Contact the RMV branch office for the specific requirements.

RENEWING YOUR VEHICLE REGISTRATION

Owners of motor vehicles in Massachusetts are required to renew their vehicle registration annually, and can do so in person, online or by mail or telephone.