

THE GEN Y GUIDE TO MANAGING YOUR CREDIT



By RJ Weiss of Gen Y Wealth

WELCOME TO THE GEN Y GUIDE TO MANAGING YOUR CREDIT

This book is specifically designed to help you understand how the crazy world of credit actually works. Going into detail about how a 3 digit number gives some financial freedom and others financial failure.

During the research of this book, I was amazed at how much the average person was expected to know about managing their credit. My goal was to condense what you really need to know about your credit score, credit history, protecting your credit, and automating your finances, into one easily read eBook.

Enjoy!



About The Author

My name is R.J. Weiss.

I'm the blogger behind GenYwealth.com. I started Gen Y Wealth to build a community where members of Generation Y, or anyone born between 1975 and 1992 if you're not into that whole generation thing, can go to learn about personal finance, interact with one another, and of course, build meaningful wealth.

My Education

Since, I talk a lot about managing your money in this eBook, hopefully you want to know where I received my education. Here is a little background...

I graduated with a degree in finance from Eastern Illinois University in 2007. I continued my education at The American College, completing the curriculum to qualify for the Certified Financial Planner or CFP® examination.

In November 2009, I successfully passed the CFP®. However, before I officially become a CFP®, I need to have three years of total work experience. I will have had the work experience requirement filled in December 2010.



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Part 1 - Why an Entire eBook on Managing Your Credit?

Part 2 - Understanding Your Credit History and Score

Part 3 - Protecting Your Identity

Part 4 - Picking the Right Credit Card

Part 5 - A Primer on Automating Your Finances



WHY AN ENTIRE EBOOK ON MANAGING CREDIT?

Understanding how credit, credit cards, and your credit history work, can save you over a hundred thousand dollars over your lifetime.

Don't believe me?

Say you obtain a \$250,000 home loan on a 30 year mortgage. With a 5% fixed mortgage, you will make total payments over 30 years of \$614,389 or \$1,707 a month for 360 months.

If your interest rate went up to 7% due to your credit history, your total payments over 30 years will be **\$730,022 or \$2,028 per month** for \$360 months. **A difference of \$115,633!**

To add a little fuel to the fire, if you applied the savings of \$321 a month between the two monthly payments, \$1,707 with the 5% fixed rate mortgage and \$2,028 per month with 7% fixed rate mortgage, and invested that into a Roth IRA over 30 years, you would accumulate **\$633,631** with a 10% return.

Do I have your attention now? That's over a half million dollars in savings from having a good credit history, only on a mortgage. If you add car loans and credit card interest, the average American potentially saves over \$1,000,000 in their lifetime with proper credit management.

Like it or not, optimizing your credit is an important part of personal finance.

Why Doesn't Anyone Understand Credit?

Since credit now plays a major role in your pursuit of wealth, you would think it would be taught in high school or at least college. Yet, every year, students graduate not knowing the very basics behind something as simple as credit card APR.

I graduated from Eastern Illinois University. A public school university in Central Illinois. I was a finance major. There was only one class, when we discussed personal credit reports and credit scores. It was an elective senior level finance class and it was during my last semester. That meant that 95% of the other school who graduated (and even many finance majors), unless they went out and learned it on their own, had no idea the impact that your credit

history has on your life.

You would think, this would be an essential time to learn these basics. Since most students graduate today with student loans and credit card debt. Yet, with all of the general education classes that were required in college, none mentioned the word credit history or even worse personal finance. (That bowling class I took, was a lot of fun though)

Even after college, when I started studying for the Certified Financial Planner® exam, there was little mention of the word credit report or credit score. I guess the the test makers didn't consider credit a big part of financial planning.

I disagree. I see more people unable to achieve financial goals or paying hundreds of dollars more a month in interest payments, because of their credit score.

I have one goal for each reader of The Gen Y Wealth Guide to Managing Your Credit. I never want your credit history getting in the way of achieving your financial goals.

Lets begin!

UNDERSTANDING YOUR CREDIT HISTORY AND SCORE

The two most important things you need to know when it comes to managing your credit, is your **credit history** and **credit score**.

YOUR CREDIT SCORE

Your credit score, also known as your FICO score, is a simple number between 300 and 850. The higher the number, the better your credit history.

The purpose of this number is to make it easier for lenders to determine if you're worthy of a loan or not. For example, a quick glance at your credit score, and a bank can decide if they will lend you money. Not only does the bank decide if it will loan you money, but more importantly, your credit score helps determine the interest rate you pay.

Advantages of Having a High Credit Score

- Easier to find a lender
- Qualify for lower interest loans such as cars, homes, and businesses
- Easier to find a place to rent, since landlords also look at your credit score
- Lower insurance premiums
- Better credit card rewards

Disadvantages of Having a Low Credit Score

- Difficult to find a lender
- Pay a higher interest rate when borrowing money
- Difficulty finding a landlord who will accept your credit history
- Higher insurance premiums

What Makes Up Your **CREDIT SCORE?**

The Fair Issac Corporation, this is where the word FICO comes from, hasn't released the exact formula for calculating your credit score. However, it has released what your credit score is based on. Here is the formula directly from their website, followed by a description and techniques for optimizing each portion of the FICO score equation:

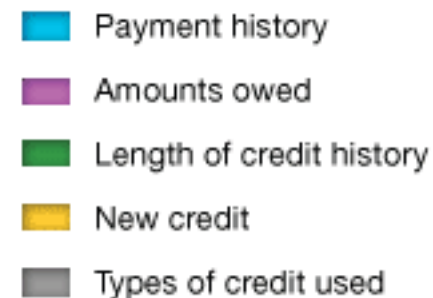
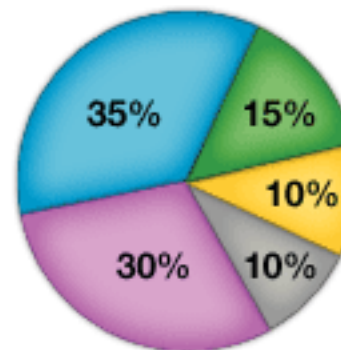
Your Payment History - 35%

Your payment history takes in account the timing of your past payments on accounts such as your credit card, retail accounts, and your mortgage. It also takes into account any bills that have gone to collection such as utilities and medical.

A quick story to illustrate the effect that payment history has on your credit score. In college I was in a car accident. Wasn't my fault, but the other driver didn't have insurance. He was going to pay me out of pocket. I had the bill from the hospital sent to my dorm room. However, I switched dorm rooms between 1st and 2nd semester. Being a dumb 19 year old, I forgot all about the situation. Turns out the bill ended up going to collections. This one mistake six years ago, cost me when I went to apply for a mortgage last year.

One thing I do have going for me that's important for you to know is that **FICO places a higher value on recent behavior.** Since my bill that was sent to collections was over 6 years ago, it doesn't have nearly as much effect on my credit as a bill that was sent to collections say last month. This is also why some people have reported their **credit score dropping by 100 points just from one missed payment.**

There is no secret behind optimizing your payment history, pay your bills on time. Even if it's just a minimum payment. It's the #1 thing you can do to improve your score. (Which means missing a payment is the #1 thing you can do to hurt your score)



Amounts Owed - 30%

The amounts owed portion, mostly refers to the ratio of outstanding debt to the amount of credit you have available. You might have also heard this called credit utilization rate. For example, if you had one credit card with a balance of \$500 and a limit of \$5,000, your credit utilization rate would be 10%.

We don't know what the best credit utilization rate is. However, we do know some basic facts.

- Don't max or come close to maxing out your available credit. More specific, don't go beyond 33% of your available credit.
- You want to use at least some credit. Therefore, a utilization rate of 0%, could actually hurt your credit score.

Shoot for the lowest percentage you can, with a reasonable credit limit. A good rule of thumb, is that the credit limit on your credit cards, shouldn't exceed your emergency fund.

Another fact to keep in mind is that lenders report your balances

What Makes Up Your Credit Score? *(cont.)*

to the credit bureaus randomly. Some lenders might report your balance on a certain day every month, some lenders might report your balance on a certain day of the week, and some lenders can even report your balance quarterly. This explains why people who never carry a balance on their credit card (who are some smart people may I add) still show a balance. Therefore, it's important to keep balances on revolving debt, way below your credit limit at all times.

For people who are responsible with paying your bills on time, I repeat if you're responsible for paying your bills on time, a good tactic to increase your utilization rate is to call up your credit card company and ask for a limit increase. Please only do this if you have always managed to pay your bills on time (yes I know, I said that 3 times in this paragraph but it's really important) and have an adequate emergency fund.

Length of Credit History - 15%

15% of your credit score is based upon how long you have had credit. Your credit score considers both the age of your oldest account and the average age of all your accounts in the equation.

The longer your credit history, the better. This is why it's a good idea to apply for a card when you're young and keep that card for life. It's also why it's a bad idea to cancel your oldest card.

Although it's not my primary card, I still have my first card for this reason. I applied for it in college, and put only groceries on it. Today I rarely use this card, but make sure to put a charge on there every few months so this account isn't cancelled.

I keep this card active because you want to always have some activity on your lines of credit. Credit card companies are now cancelling cards that have not had an activity in a long time without your approval.

What It All Comes Down To

Many people try to crack the FICO equation, to determine their exact credit score. FICO has never and will never release the exact equation.

New Credit - 10%

Would you lend \$100 to a friend who borrowed \$100 from three other friends yesterday? Of course not. Which is why lenders, don't like to see a lot of new activity, such as applying for multiple new lines of credit.

The FICO score equation takes into account:

- New accounts applied for
- Accounts that were opened
- Length of time since you last applied for credit
- Length of time since you opened a new credit account

The key is to keep activity down to a minimum. You won't be able to avoid all inquires on your account, but there are techniques I will discuss later to help minimize credit inquires.

Types of Credit Used - 10%

Lenders prefer to see a variety of credit on your credit score. For example, it's better to have a student loan, a credit card, and a car loan than three credit cards.

Don't go out and buy a car or a house just to please FICO here. The most important thing is to have at least one credit card from a major bank. In the eyes of FICO, being responsible with a major credit card, proves that you can handle other types of credit.

It all comes down to common sense though. Pay your bills on time, don't use all of your credit available, and don't close your oldest account.

How To Get Your Credit Score

Now that you know 99% of what there is to know about credit scores, you probably want to see what your score is.

It's very easy to get your credit score. It does cost \$15 but it's only a once a year expense (you can get your credit report for free).

The best way to get your credit score is by going to MyFico.com. They let you choose between TransUnion or Equifax. Just choose one this year and the other the next year.

Make sure to print out the report and save it. To print your credit report at MyFico.com, use the Print button located at the "Next Steps" tabs. This will give you a nice clean printout of your score. Keep this with your important financial documents.

One of the main reasons I recommend MyFICO, is because of the tools to improve your credit score they provide. My favorite tool is located in the "Next Steps" tab and it's called the credit score simulator. This will let you see how certain actions can help or hurt your credit score. Make sure to click on the "Simulate Best Action" button, which lets you see what one thing will help your credit score the most. An incredible feature, for anyone who has to reduce their credit score in a hurry.

One last note about MyFico.com, on the third tab you can see how different credit scores affect different loans. For example, the difference between a credit score of 750 and 550 on \$25,000, 48 month car loan, is \$162 a month. That's a 28% increase in monthly payment!

The Credit Report

Your credit report is a detailed report of your past credit history. It provides a future lender with just about every major financial transaction from your past.

Getting your credit report is easy and free. Go to annualcreditreport.com. You're entitled to a free copy of your credit report from each of the reporting agencies once a year (Equifax, TransUnion, and Experian) You can get these all at once or over a period of a year. I prefer to spread it out, just in case someone requests a copy of my credit report, I don't have to pay to get one. The important thing is make sure you check your credit report once a year from each of the major credit reporting agencies.

Once you get your credit report, go over it like a 8th grade kid reviews his first Playboy. You want to double check everything. Even basic information such as your name, social security number, address, etc... You won't believe how many stories I have heard of this information being incorrect, and consequently, negatively effecting someones credit without them knowing it.

Besides your basic information, you need to review everything on your credit history. Start from the first page and work your way toward the end.

To show you what you should be looking for, I'm going to take you through a recent copy of my credit report from Experian. The exact order may differ for you, depending on what credit reporting agency you receive your report from.

Potentially Negative Items or Items For Further Review

The first thing that pops up on my credit report is a collection agency. As mentioned, I had a bill go to collections when I was in college. My credit report gives me the information of the collection agency, along with the original creditor. It also lists the amount, which was just \$57 and the fact that I paid it off.

Most importantly, it mentions that this collection will be removed after seven years. Which means as of next year, this comes off my credit report.

If I was a smart college kid, I would have recorded the dates and kept a paper trail. This would allow me to record the exact date that the company went to collections. A lot of times, dates are a few months behind, which I think it is in my case. If I had the proper documentation showing that this bill was sent to collections earlier, I could have it deleted from my credit report earlier.

Another footnote worth mentioning is that, Chapter 7, 11, and 12 bankruptcies and unpaid tax liens will remain up to ten years. Don't get involved with stuff like this.

Accounts in Good Standing

The next section gives accounts that are paid up to date, along with balance history. Mine include three credit cards and one mortgage. All accounts status currently list "Open/Never late", a great sign.

On one of my credit card accounts, I'm listed as an authorized user. Meaning it's not my responsibility to pay the bill. Even though this isn't my credit card, being an authorized user still effects my credit rating.

A bit of history on the authorized user because this has been a back and forth issue. One of the ways you used to be able to increase your credit score was to add yourself as an authorized user to an account in good standing. For example, if your parents had good credit, you can ask for them to add you as an authorized user and their credit history would go on your credit history. Your credit score would then immediately go up. FICO figured out this trick quickly and decided to eliminate authorized user status from the credit score equation for a short time. About two months after, they reversed their decision, stating:

"After consulting with the Federal Reserve Board and the Federal Trade Commission earlier this year, Fair Isaac has decided to include consideration of authorized user trade lines present on the credit report in the FICO 08 model." - Tom Quinn, Vice President of Global Scoring Solutions for Fair Isaac Corporation

My guess is that FICO adjusted their formula in the two months, to minimize any credit score increase from being added as an authorized user on an account in good standing. However, if the account is in bad standing, it will negatively effect your score.

Therefore, if you're an authorized user on an account with a bad credit history, ask to be removed immediately. (You might want to send them this book, while you're at it)

Record of Requests for Your Credit History (Hard Inquiries)

The next section of my credit report lists recent hard inquiries. Hard inquiries are performed by current and potential lenders, when you're taking on additional financial obligation.

The most common hard inquiries you will find on your credit report include:

- Banks & Credit Unions
- Credit Card Companies
- Car Dealers
- Insurance Companies
- Property Management Companies & Landlords
- Phone & Cable Companies
- Utility Companies

Here's the statement from Experian on my credit report:

"We make your credit history available to your current and prospective creditors and employers as allowed by law. Experian may list these inquiries for two years so that you will have a record of the companies that accessed your credit information.

The section below lists all of the companies that have reviews your credit history as a result of action you took, such as applying for credit or financing or as a result of a collection. The inquires in this section are shared with companies that view your credit history."

Ways to Limit Hard Inquires include

Since hard inquires do negatively effect your credit score, lets discuss a few ways to limit hard inquires.

1. **Ask** - Anytime you're opening a new account, ask if they are pulling your credit, when they are pulling your credit, how many times they pull your credit, and is there any way for them not to pull your credit.
2. **Don't Rate Chase** - A common, but damaging trend is to chase low introductory rates on credit cards or high introductory rates in the case of savings or checking accounts. The more accounts you open or just apply for, the more hard inquires you will see on your credit.
3. **Avoid Applying for Store Cards & Cards That Give You a Free Gift** - Popular retail stores will ask you if you want to save 10% today by applying for a store credit card at checkout. A similar marketing trick is done by issuing free T-Shirts at sporting events or pizzas on college campus to those that apply for a credit card. Keep in mind that every time you apply for one of those cards, they pull a hard inquiry. Plus, they are usually pretty crappy cards.
4. **Don't Do Business With Companies That Routinely Check Your Credit** - Some businesses pull your credit on a regular basis. Unfortunately, this is legal because they put it on the 22nd page of their terms and conditions. As a real world example, customers of Verizon reported that they had a hard inquiry pulled once a year. If a business is going to treat you like that, refuse to do business with them. The Fat Wallet Forums, keeps an unauthorized list of businesses that perform a hard inquiry.
5. **Avoid Don't Pay Till 2012 Deals** - Say you went into Best Buy and want to buy a new big screen. They have a promotion going on that says, "0% Financing to 2012". Even though it's a 0% deal, please avoid doing something like this. Even if you know you will have the money in 12 months, it's not worth it. Pay in cash or a credit card today and avoid them ever having to pull your credit.

Each hard inquiry on your credit report will lower your credit score anywhere between 5 and 10 points.

Getting Rid of Hard Inquiries

There used to be a common technique to get rid of hard inquiries, that if you did a soft inquiry on yourself once a day, hard inquiries would eventually get bumped. Credit reporting agencies are bright people and quickly caught on.

As of now, there is no way to eliminate a hard inquiry that you gave permission for. That doesn't mean that there is no way to get rid of a hard inquiry from a company that **you didn't give permission to.**

If you don't recognize or don't remember giving authority for a hard inquiry on your credit, you have the right to get it removed by mailing or faxing a request to the creditor. You want to do this immediately, before they make another unauthorized inquiry.

The contact information for the creditor, should be on your credit report. If it's not, visit the company's website and search for a contact number. Then call the creditor, and ask for either a fax line or mailing address to submit your formal letter. (Note: Don't ask for the hard inquiry to be removed over the phone because there is no paper trail.)

Below is a copy sample letter you
send via fax or certified mail to
each creditor.



Removing a hard inquiry on your credit report, can give your credit rating a slight boost. The biggest benefit to doing so is less information in the hands of careless organization. The less personal information about you is circulating around, the less chance you have of getting your identify stolen.

Inquiries Share Only With You (Soft Inquiries)

Soft inquiries are inquires that you're not even aware of. Companies that send you preapproved credit card applications or life insurance through the mail, perform a soft inquiry before sending you that application. Soft inquiries have no bearing on your credit score.

On my credit report from Experian it states in bold letters:

"We offer credit information about you to those with a permissible purpose, for example to:

- *Other creditors who want to offer you preapproved credit*
- *An employer who wished to extend an offer of employment*
- *A potential investor is assessing the risk of a current obligation*
- *Experian Consumer assistance to process a report for you*
- *Your current creditors to monitor your accounts*
- *A static copy of your credit report provided to a subsequent user necessary to complete your mortgage loan application*

These inquires do not effect your credit score.

Although they don't have any bearing on your credit score, it's still important to take a look at what companies are looking up your credit history each year.

Common Questions About Credit Scores and Reports

What's the Fastest Way to Raise my Score?

- 1.** Delete any errors from your credit report
- 2.** Automate your finances to never miss a bill
- 3.** Pay down revolving debt. Start with the debt that is closest to it's credit limit. (Note: This might not making financial sense because there is no guarantee that the debt that is closest to its limit, is the debt with the highest interest rate.)
- 4.** Ask a parent or a friend with great credit, to be added as an authorized user
- 5.** Ask for an increase in your credit limit

What Do I Do If There is an Error on my Credit Report?

If something is wrong on your credit report, you want to immediately contact the reporting agency that issued the report.

The FTC has great instructions on what to do if there are any errors. Follow their steps, including using their template. Make sure to copy anything you send, for your own records and record dates of everything you send.

If I Close All My Accounts, Will That Hurt My Credit Score?

Yes. Creditors like to see a history of credit. If you close your accounts, you will have no history.

How Am I Expected to Shop Around for a Loan, if Every Time I Apply My Credit Goes Down?

FICO does recognize this problem. That's why the FICO score formula lumps together auto and mortgage related loans inside 30 days of each other. For example, if you're applying for a home loan and you fill out five applications inside of 30 days. You will have just one hard inquiry on your credit report. However, if you're a little lazy and apply for five loans in the span of two months, you will have two hard inquiries.

Why Does my Credit History, Affect my Insurance Premiums?

Insurance companies have found that people with low credit scores tend to file more claims. Yes it might not be fair, but you do have control over your credit score.

Does Pulling My Own Credit Score or Report Hurt My Score?

Nope. Checking your own credit score or report will not hurt your score if you do it with a service that is affiliated with FICO. That's why I prefer to go directly to the source when checking my score, at MYFICO.com

Do I have More Than 1 Credit Score?

You only have one FICO score. However, there are many other ways companies choose to classify you. For example, did you know you have an insurance score? It's a score that insurance companies developed to access your profitability to them. Have you ever heard of your VantageScore? It was once thought, that this was going to replace your FICO score. Most lenders today evaluate your risk potential with a FICO score. So I think it's important to concentrate on that.

I was Denied a Loan Even Though I Have Perfect Credit, Why?

Ask the person who denied your the loan. By law, they have to give you a response as to why you were denied credit inside 30 days.

What is Revolving Credit?

Revolving credit, is a term used for credit that has no expiration.

Car payment, student loans, or mortgages **are not** considered revolving because you eventually pay these types of loans off. Loans that are paid off, are called installment credit.

On the other hand, a credit card is a revolving because the credit is always available. As long as you pay it off each month, it's always there for you.

Your FICO score looks at the amount of revolving credit you have compared to installment credit. The less revolving credit the better, in the eyes of FICO. If you're looking for a quick increase in your credit score, a great way to achieve this is by paying off your revolving credit.

Does Applying for a Credit Card Hurt Your Credit Score?

Yes, applying for a credit card is a hard inquiry, which can negatively affect your credit score in the short-term. You can expect your credit score to go down around 5 points for six months any times a hard pull is done.

Keep this in mind, if you're applying for a loan in the near future. For example, don't apply for a new credit card right before applying for a car loan, to increase your credit utilization rate. Last, this another great reason not to get that department store credit card or apply for a credit card or for a free pizza.

Note: Did you know that you can opt out of credit card offers?

PROTECTING YOUR IDENTITY

It's a little unfortunate, that I have to include an entire section about identity theft in a book about managing your credit, but that's where we're today. I'm sure you know at least one person, who has had their identity stolen. My goal is for you, not to be the next.

Here are 62 ways to help prevent identity theft.

How to Prevent Identity Theft

1. Use a shredder. Shred anything you're about to throw out with your personal information on it. Especially, anything with your social security number and applications (insurance, credit cards, phone, cable etc...)
2. Choose hard passwords and PIN #'s and store them offline. If your pin number is your birthday or your password is something as simple as your middle name and birthday, change it immediately. There are a couple of Open Source options for password management, such as KeePass for Windows and KeyChain for Mac. Last, don't choose similar passwords for your banking accounts. If a hacker has one, he has them all.
3. Have emergency cards and copies. Never keep all of your information in one place, especially your wallet. Just because you have a credit card, doesn't mean you have to carry it with you at all times. Unless you're traveling, try to carry just one credit card and one debit card with you at all times.
4. Don't store SS# on your license or keep your SS card in your wallet
5. Never insert your credit card information, on a website you don't trust.
6. Hold mail at the post office, when you're out of town. Never let a package sit on a door step overnight.
7. Use free Anti-Spyware software, like AVG Online.
8. Always erase your hard drive, if selling or donating your old computer.
9. If you need to mail an important document, such as your taxes, either hand it to the mail man or drop it off in a collection box or at the post office.
10. Never give your personal information away over the phone.
11. Review your credit card bill every month. Make sure there is nothing on there, that you don't recognize. A lot of the time, thieves will a small charge initially on your account, wait a month to see if you notice it, then put a bigger charge later.
12. If the transaction involves the country Nigeria, it's a scam.
13. Don't list your social security number on a resume, then send it out to 20 companies online.
14. If you can manage to pay your bill in full each month, use a credit card instead of a debit card. Credit cards have better protection against identity theft.
15. Use ATM's sparingly and never use an ATM late at night.
16. Keep all of your checkbooks in a very secure place. Never store your checkbook in your purse, wallet, or car.

17. Store copies of important documents and cards in a secure place in your house. Make sure to get copies of the front and back. If your credit card gets stolen, the number you want to call is on the back of your credit card.
18. Keep a list of everything in your wallet or purse. If you ever lose either, make sure that each account in your wallet was cancelled.
19. If you have an old credit card that you rarely use, make sure to check the balance monthly. You can use a service like Mint, to do all the tracking for you.
20. If you lose your license, ask for a new driver's license number.
21. Don't keep deposit slips in your wallet. Store in a safe place, until you see that money deposited is correct, then shred.
22. When traveling in a place known for pick pocketing, don't leave your wallet in your back pocket or buy pants with buttons.
23. If you have a military ID, which has your SS# on it, just store a copy with your Social Security number blacked out.
24. Don't write your PIN # on a little piece of paper and keep it inside your wallet.
25. If someone steals your purse with your keys inside, immediately contact your landlord or if you own, have your locks re-keyed.
26. If someone has stolen your wallet or purse, mark on your calendar to check your credit report one month after the incident. Then three months after that.
27. Keep credit card receipts in a safe place. Never just toss, without looking to see if your full credit card number is listed.
28. Don't give away your old ID to a frat brother. Quick story, a friend of mine let someone use his old ID. One night after a few beers at a Chicago Blackhawks game, he signed up for a credit card to get a free Hawks blanket. The guy who had his ID got the blanket, and my friend got a new credit card that he didn't want.
29. Limit the amount of credit cards you have. Around 2-3 is probably the max I would have at one time.
30. Use electronically delivery for every bill.
31. Pay bills online.
32. Never check a bank account or other personal accounts on a public computer. If you don't have an option, always delete cookies.
33. If you have a tendency to misplace credit cards, instead of including your signature on the back of the card, write down "Ask for ID".
34. Have a unique signature. The harder your signature is to duplicate, the harder it will be to forge.
35. Refuse to give away your social security number to businesses that don't need it.
36. Don't store your credit card information on any sites. We would like to think that secure sites like Amazon and Google Checkout can store your credit card information securely, but you can never be sure.
37. Have new checks ordered to the bank. Never get them sent directly to your house. They come in a very obvious small box, that sometimes can't fit in your mailbox.
38. If your Social Security # is on your health insurance card or any other type of statement, ask for it to be removed. Ask the company to create you a new ID # that isn't your social security number.
39. Shred old documents. You only need to keep tax records for the previous seven years. Bankrate.com has a good explanation of what you need to keep and for how long.
40. If you're good with a scanner, keep your financial records on an external hard drive and hide it in a safe place.
41. Check your credit report at least once every six months. As I said previously, I alternate what credit report I can check every six months. Mark the date you check your credit report on your calendar.

42. With all of this information that you now know, teach it to your parents. Make sure they are protected because if someone is able to steal your parents identity, there is a good chance they can get access to your identity.
43. Buy a secure safe for the house. Don't just have a filing cabinet with a lock. Store your important documents such as passports, social security cards, tax returns, etc... in a safe and hide it away.
44. Use a gel pen with blank ink when you're writing a check. Gel ink can't be chemically altered.
45. If you start seeing credit card offers in the mail before you or your child turns 18, immediately get their credit report. Unfortunately, even children are not immune to having their identify stolen. Credit card offers in the mail, are a sign that someone is attempting to steal your child's identity.
46. Don't leave your ATM receipt in the machine. Keep it in your pocket and shred it when you get home. I'm amazed at how many people do this.
47. One of the most common ways credit card information is stolen, is by a waiter or waitress taking your credit card to the back and copying the information while you're waiting. As a general rule, never let anyone take your credit card out of site.
48. Put your mail on hold when you're traveling. An overstuffed mailbox is like a pot of gold to a thief.
49. Anytime a solicitor calls, ask to be deleted from their database effective immediately.
50. Did you know that if you're being held up at an ATM, there is usually a secret code that your bank uses to alert authorities? For example, with some banks if you enter your password backwards, it will automatically have the ATM machine eat your card and say you have a zero balance. It varies per bank, so ask your bank if they have this feature if you find yourself using your ATM card by yourself a lot.
51. Know when and how your credit card statements usually arrive. If your statement comes by mail and is a few days late, go online and check your statement to make sure there are no fraudulent charges. If your statement arrives by email, and is more then one day late, immediately check your statement online. Missing statements could mean that someone changed either your email or physical address.
52. Avoid logging onto financial accounts from an unsecured wireless network, like a hotel room or a coffee shop.
53. Learn how to properly secure your home wireless network.
54. When on vacation, use the safe in the hotel room. Store your computer, phone, copies of passports and ID's, in the safe at all times.
55. If you have a smartphone, buy a program which deletes all the data on the phone the moment it's stolen.
56. Don't log on to your bank or investment accounts from your phone. Your phone can get lost or stolen a lot easier then your computer can.
57. Always use cash at a bar. I'm sure we all know someone who has left the bar and has to go back and get in the next morning. Therefore, the card stays in the bars possession overnight and is visible to every employee coming in that morning starting with the cleaning crew.
58. If you have a landline register for the Do Not Call List by calling 1-888-382-1222.
59. If you're on a Windows Computer, use Anti-Malware computer. For years I have been using a program called Ad-Aware. It's a free program that removes common malware on your computer.
60. If you see a mass forwarded email from one of your friends, marketing a product. It's usually a scam. What normally happens is someone hacks into your friends account and sends a blast to everyone on their contact list. Be very suspicious if you receive an email from a friend that seems uncharacteristic.
61. If someone sends you an email, saying they have \$1,000,000 to transfer but they need your help. Although they will give you \$100,000 for your effort. This is a fraud. Report it as spam immediately.
62. Freeze your credit if you're at a high risk of identity theft

Freezing Your Credit

A credit freeze, also known as a credit lock down or a security freeze, is a way to prevent new lines of credit being open underneath your name. When you apply a credit freeze, you're issued a PIN # by the credit reporting agency, that only temporarily allows access to your credit by a third-party. Without this Pin #, no one can have access to your credit report.

So why would someone want to freeze their credit?

Anyone who is at a high risk of getting their identity stolen, would benefit from applying a credit freeze in their account. For example, if you recently lost your wallet, which contained your social security number on your drivers license, now would be a good time to apply for a credit freeze. With just the information on your drivers license, someone could easily apply for a new line of credit in your name.

Another person who would be at high risk of identify theft, is someone who has recently lost an important document through the mail. In general, any time your social security number is floating around, is a great time for you to apply for a credit freeze.

Besides preventing your identity being stolen, freezing your credit is also a way to force you to change your bad financial behavior. For example, if you're tempted to buy a new car but deep down you know it's a horrible financial decision, in a moment of strength you can apply for a credit freeze. Therefore, in order to actually buy the new car, you have to go through a few extra loop holes.

Advantages of Freezing Your Credit

- No one can open any new lines of credit, without the PIN.
- Extra steps for you to open a new line of credit, to prevent bad financial behavior.
- Less information of yours circulating around because companies can't inquire about your credit history.
- Less junk mail

Disadvantages of Freezing

- Can't immediately open any new lines of credit or inquire about your credit. This could cause problems when applying for a new job, mortgage, car, etc...
- Small fee to freeze and unfreeze credit. For victims of identity theft, the fee is usually waived.
- Thieves can still use your existing accounts. Which brings me to a really good point. Never carry all of your credit or debit cards in one place. Say you lost your wallet, while you have placed a credit freeze on yourself. A lot of the time, it takes a few days to temporarily unfreeze your credit because you have to send the request in through certified mail. So now you have no access to cash and are stuck waiting a few days, until your credit report unfreezes. Not a situation, you want to find yourself in.

How To Freeze Your Credit

Each state has different fees, laws, and regulations, on how to freeze your credit.

General rules are as follows:

- You have to apply with each different credit reporting agency. You do this online. (Equifax, Transunion, and Experian)
- You must pay a small fee to freeze your credit

Are Identity Protection Services Worth the Investment?

The other option to prevent identify theft, would be to use a service. However, I haven't heard too many positive things about these services. Last year, LifeLock one of the more popular identify prediction services, lost a \$12 million class action law suit. Plus, the owner who in a PR stunt, published his social security number, has gotten his identity stolen a few times now.

For additional protection against identity theft, review your homeowners or renters insurance policy. Many policies contain coverage up to \$1,000,000.

CHOOSING THE RIGHT CREDIT CARD

What really are credit cards?

The reason I will always use credit cards is because a credit card is a free short-term loan. Over my lifetime, everything I buy I pay around 45 days late. Instead of money coming immediately out of checking account, my money gets 45 more days to grow in a high interest checking account.

Beyond just a free loan, credit cards have many other purposes in my personal finance arsenal. I get the convenience of not having to carry around cash much. I get a small kickback, depending which rewards program I choose, every time I make a purchase. Some cards provide other benefits such as free car rental insurance, identity theft protection, trip cancellation insurance, and much more. (A story of how I saved around \$2,000 by using a credit card.)

What else are credit cards? They are a **very expensive medium-term loan**. Not paying your bill every month is the equivalent to letting Bernie Madoff invest your money. It's a bad deal.

The misuse of credit card debt has ruined more people in this country than any other form of debt. I will repeat this again before I go on, credit cards are a free short-term loan and a **very expensive medium-term loan**. If you feel there is even a slight possibility that you're not going to be able to pay your bill in full every month, then don't use credit cards. While credit cards make things like building your credit score a little easier, there is no law requiring you have one.

All the benefits I just stated about credit cards are wasted ten fold if you can't pay your bill, IN FULL, every month. I will say this one more time, if you can't pay your bill every month, then you shouldn't own a credit card.

Definitions You Need to Understand

Before I get into choosing the best credit card for your situation, it's important to discuss common terms that exist in the credit card industry.

Annual Fee - Some cards have a yearly charge for holding the card. Other cards have zero annual fees.

Annual Percentage Rate or APR - This is the amount you pay in interest each year if you carry a balance. For example, if you had a \$1,000 balance on your credit card, your APR was 20%, and you made minimum payments of 2% every month, it would take you \$2,126 to get rid of your debt over about 16 years. There are a couple of things to keep in mind, if you want to understand APR. First, APR is compounded on a daily basis. For example, by carrying a balance of \$1,000 on your credit card with a 20% APR, it's not as simple as saying you will incur \$200 of finance charges per year. It's actually a lot more because it compounds 365 days. Next, your APR could change from year to year or month to month.

Balance Transfers - To get your business, some credit card companies let you transfer an existing balance from a previous credit card to them. Often, a credit card company will entice you with a few interest free months in order to get you to move. For example, you're currently paying 16% interest on a \$1,000 balance with a Bank of America credit card. One day in your mailbox (isn't it convenient for you that other credit card companies know you're in need of a transfer), you get a credit card offer from Chase bank offering you a balance transfer and six months of free interests. Knowing that you plan to pay the amount in full over the next six months, you switch to Chase to avoid the interest charges.

Card Member Agreement - This is an important document that lays out the terms and conditions of your agreement with the credit card carrier. It's usually long and has tons of small print, but worth reading before you apply for a credit card. The card member agreement contains very important information such as APR, outlines what fees you may be charged, and outlines what you need to do in a dispute.

Due Date - This is the date that your payment is due. If you pay after this date, you're assessed a late fee.

Fixed or Variable APR - Your Annual Percentage Rate is either fixed or variable. A fixed percentage rate doesn't change (but really does, they just have to give you 15 days notice). A variable percentage rate does change constantly due to interest rates (LIBOR or Prime Rate) rising or lowering. A typical card agreement with a variable APR, would be PRIME +6.25%. This means that your APR is benchmarked to 6.25 percentage points above PRIME. Here's one important thing to remember, with both a fixed and variable rate, your interest rate can sky rocket if you missed a payment. This is why it's important to read the card member agreement.

Introductory/Teaser Rate - Credit card companies may offer you a very low interest rate, sometimes as low as 0%, for only a short period of time, so you can get used to their "services". For example, if you see a credit card advertising a 0% introductory rate for six months, this means you pay no interest for six months. However, at the end of six months, you're likely to see your APR jump.

Late Fees - If you don't pay your credit card by the due date, you're assessed a late fee.

Minimum Payment - Your credit card provider allows you to make a minimum payment on your outstanding balance. Sometimes this can be a set amount like \$25. Sometimes it will be a percentage such as 2%. If you make your minimum payment on time, you're not charged a late fee. However, any balance that goes unpaid, starts to accumulate interest. For example, your current statement shows you owed \$500 due on December 8th. The terms and agreements of your credit card contract say that you have to pay a \$25 minimum payment. Therefore, if you made a \$25 payment on or before December 8th you wouldn't be charged a late fee.

Secured Credit Cards - A secured credit card lets someone with a bad credit history obtain a credit card. The catch is that you must put down collateral, in the form of cash, to have the privilege of using that credit card. Generally, the amount you put down in cash, is the amount you can charge per month. For example, if you put down a security deposit of \$500, you can charge up to \$500 a month on your credit card.

Total Credit Limit - This is the maximum your balance can reach on a card. For example, if the maximum is \$2,000, that's the highest balance you can carry. Be aware that sometimes a credit card company will let you go over the credit limit by a little, but charge you a fee for doing so.

Unsecured Credit Cards - An unsecured credit card, which are more common than secured credit cards, do not require collateral to be put down.

What to Know About Your Credit Card Issuer Before You Commit

We all hate reading the fine print on credit card application. But it's very important you read and understand every detail before opening a new account.

Look to answer the following questions after reading the terms and conditions:

1. Does your credit card have an introductory rate? If so, how long does the introductory rate last? Also, what will the rate change to after the introductory period is over?
2. What are the fees involved? Is there an annual fee, application fee, processing fee, late fees, a fee for going over the limit, balance transfer fees, and termination fees? (Banks make most of their money off the fees.)
3. What are the payment options? Most all banks have online bill pay and ETF withdrawal, but always make sure.
4. What would happen if you couldn't afford to pay the minimum balance due?
5. What happens if you go over the limit?

Getting a New Card

Credit card offers are changing everyday. I would have to update this eBook everyday, if I were to include credit card recommendations in in.

Since I'm a little lazy and I have your best interest in mind, I want to introduce you to cardoffers.com, which I'm an affiliate of. Out of the numerous credit card review sites available today, I find that cardoffers.com has the simplest interface and most updated site.

If you wish to apply for a new card, head on over to their site now. Use the definitions above, to see which card best fits your profile.

A Word on Credit Card Rewards

One of the greatest benefits of having a card is the rewards. Keep in mind that the lender's issue rewards, to encourage you to spend more. If you can't pay your credit card bill in full every month, rewards actually cost you a lot of money.

When searching for a rewards card, know that there is no one single card that offers the best rewards to everyone. Rewards will differ on your spending patterns. For example, there's no point in getting a card that offers you 5% back on hotels, if you only travel once a year.

You need to match your rewards with your spending habits. Before applying for a card, review your spending habits. Where do you spend the most money? If it's transportation, get a gas rewards card. If it's entertainment, get a rewards card that offers you cash back on your entertainment purchases. If you have an existing balance that you want to pay off, get a balance transfer card.

Overall, don't settle for only a 1% cash back. There are plenty of cards out there, that if you use them right, can average 2% or even more.

Secured Credit Card

Many people have trouble meeting lender's requirements and are unable to have a credit card issued to them. Lender's will deny your application for a variety of reasons. Some lenders will not issue a credit card to anyone who has no credit history.

If you're having trouble getting accepted, an option is to apply for a secured credit card. In order to get issued a secured credit card, you must put down collateral in the form of cash in a special savings accounts. Most lender's will issue you a card with the limit of your collateral. As long as you have the card, you're not allowed to withdraw the money from the savings account.

Luckily, it won't take long for you to establish a credit history with a secured credit card. As long as your paying your bill on time, you can start establishing a good credit history immediately.

After about 6-12 months of using a secured card, lenders will be more willing to issue you a traditional credit card.

One last thing to know about secured credit cards are that interest rates are high. You don't want to run any type of balance on a secured credit card. The whole purpose was to show lenders that you can manage a card, which should only take about 6-12 months.

A PRIMER ON AUTOMATING YOUR FINANCES

There is plenty of debate on how much of your finances should you automate. Should you always pay with credit card and rarely carry cash? Or should you rarely use a credit card and always pay with cash.

I lean more to the automate side because of the simplicity, especially for investing. I simply want to spend the least time as possible on the little stuff such as paying bills, withdrawing cash, transferring money between accounts.

I would rather use my time doing things as I enjoy just as cooking amazing meals, spending time with my family, golfing, and most often forgotten, making more money.

Automating isn't a set it and forget it task, like some make it believe. This is why I don't really like the word automation. The real goal isn't to set it and forget it, but to reach your goals in the most efficient and effective way as possible. Scheduling withdrawals, investments, bills, etc... lets you achieve your goals faster and a lot easier.

The goal of the last section of this eBook is to look into how you should automate your accounts.

Example of Automation

In order to see how money can flow in and out of your accounts, let's look at an example. We are going to start from the beginning to see how money can move between accounts without your effort.

Here are the details:

- You make \$1,000 a month.
- You're paid on the 1st and 15th of the month.
- Today is the 5th of the month.

Day # 1

On the first of the month, before any cash is deposited into your bank account, 5% of your salary was deducted from your 401K. Your contributions to your 401K are automatically invested into a good index mutual fund or two.

After the money is withdrawn from your 401K, the money left over, 95% in this case, is directly deposited into your checking account.

Day # 2

On the second day of the month, you automate your savings.

Your savings goals are as follows.

- 10% of income to emergency fund
- 10% of income to Roth IRA
- 5% of income to travel fund

Knowing your goals, you schedule the following transactions to occur on the 2nd of the month.

1. \$100 into a separate high interest savings account
2. \$100 dollar cost averaged into a Roth IRA
3. \$50 into a separate savings account named "Travel"

The key to automating your goals like this is to have a sub-savings account. ING Direct, the bank that I use and recommend lets you do this. Other bigger banks are also warming up to this ideas.

Day # 3 - Credit Card Review

During the entire course of the month, you set up all of your bills to automatically charge your credit card. Any recurring expense such as your gym membership, Internet & cable service, or insurance are charged once a month a different times to your credit card.

On the 3rd of the month, you take time to review your credit card statement. You can do this by logging in your credit card provider's website or having it emailed to you. If there are any charges you don't recognize, you immediately contact your credit card provider.

Unfortunately, not all bills such as your rent or utilities can be paid with a credit card. For these bills, you set up an automatic pay using either ETF or automatic bill pay. In these instances, set a reminder on your calendar to review your checking account balance to guarantee that you have enough, and then some to pay your rent and utilities.

Day # 4 - Pay Statement Balance

On the 4th day, you set up your credit card to automatically withdrawal money from your checking account for the statement balance.

That's pretty much it. Your situation might be a little different, depending on what bills you have. However, the general principles should stay the same.

The technology today has made routine tasks such as bill paying and investing, automated. You can now spend time on the bigger stuff, than worrying about if your check was received by the credit card company on time.

More Tips on Automating Your Finances

Just to make sure everything goes smoothly, here are a few other tips for those just getting into automating their finances.

1. Keep a Buffer - The goal isn't to have \$0 in your checking account right before your direct deposit hits. Keep a buffer of around 15-30 days of expenses in your checking account. You earn very little interest on it, but one overdraft fee would costs you a lot more.
2. Know Your Bank's Overdraft Guidelines - What would happen if you over drafted your checking account? Are you charged a fee? Is there interest? Will your bank automatically deduct money from another account? Know your bank's guidelines.
3. Set Budget Reminders - If you're worried about losing track of where your money is going, then set up budget reminders in Mint. For example, if you're worried you might spend too much on eating this out, put a budget reminder in Mint.com for \$100 a month on dining out.
4. Use Credit When Possible - The more you use credit or debit card, the easier your system works.

CONCLUSION

Thank you for taking the time to read the Gen Y Guide to Managing Your Credit.

Unless by some miracle, I can publish an entire book on credit, I never plan to charge for this eBook. Actually, I plan to keep writing and keep updating the eBook as time goes on. I will announce any updates either through the newsletter or on my Twitter.

If you have any questions or comments about managing your credit, send them to me at rjw@genywealth.com. I can't guarantee that I will respond to each one personally, but major questions will be included in the updates.

If you're not familiar with the blog at Gen Y Wealth, I post 2-3 times a week. The blog isn't just about credit because who really wants to spend all their time writing about just credit? I cover ever personal financial planning topic. To stay up to date with the blog, you can subscribe to its RSS feed. This way, you can be immediately updated whenever there is a new post on Gen Y Wealth from either your email inbox or feed reader.

Last, as I stated at the beginning of this book, my goal for The Gen Y Wealth Guide to Managing Your Credit, was to have each of its readers never have to worry about not achieving their financial goals due to credit. If you're confident after reading this book that you understand how credit actually works and can now say that from now on, credit will never get in the way of your goals, I ask you one favor. Can you please pass this book along to a friend?

Thank You!

RJ Weiss

