Advantage advisor

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This issue:

Credit Card Use Increasing

An improving job market has consumers returning to credit cards. According to the 2014 Card Hub Study, credit card debt increased to more than $57 billion dollars in 2014 and experts are predicting that number to rise to $60 billion dollars this year. Card Hub estimates households are carrying balances totaling $7,300, close to the previously identified amount of $8,300, which according to Card Hub is difficult for a household to sustain.

More bad news could be looming for consumers who are increasing their credit card debt. Card Hub expects interest rates on credit cards will begin to rise as the economy improves. When the CARD Act of 2009 was passed, most credit card issuers switched consumers to a variable interest rate, so when the Federal Reserve increases the prime interest rate, credit card companies could increase the interest rate on credit cards as well. Most economists are predicting a hike in the prime interest rate sometime this year.

Consumers taking on additional credit card debt should examine why this is occurring. In some cases, it may be to supplement a lifestyle that isn't feasible within the consumer's monthly budget. Determining monthly expenses and managing a budget is the first step to decreasing credit card usage. Contacting the Agency and scheduling a credit counseling session or using the agency's online budgeting tool (www.onlinebudgetadvisor.com) is a great first step in reducing spending and eliminating unsecured debt.

Tips

With credit card debt increasing, here are some tips to keep your credit card debt from going up…

- Establish a monthly budget. Thoroughly examine your monthly expenses and determine what needs to be eliminated. Schedule a credit counseling session or use www.onlinebudgetadvisor.com for assistance.
- Track expenses. See where you're spending your money each month and make the appropriate reductions to live within your means.
- Be wary of offers to transfer balances to a card with a lower interest rate. On the surface, it may seem like a good idea, but read the fine print and make sure you fully understand the requirements to keep the lower interest rate.

Dear Debt Monkey

Q: My daughter is 10-years-old. Is now an appropriate time to start giving her an allowance to teach her how to manage money?

A: It's never too early to start teaching children about money and as they grow, it's important to expand their education to money management as their understanding of money increases. An allowance is one tool that can be used to help children understand the value of money and learn how to begin saving.

Providing young children (4-8 years old) an allowance is a way to teach them the value of money. Helping them use their allowance for something they want to purchase can help them better understand how much items costs and what it takes to pay for something.

Once a child enters the third grade, he or she understands money at a higher level and can begin to learn how to manage money. This is when having an allowance becomes a highly effective tool to introduce budgeting and savings.

There's a popular method of allowance distribution called Save Some, Share Some, Spend Some. Using this method, children are encouraged to put a certain percentage of their allowance into savings, donate a certain percentage to their favorite charitable cause and spend some for the items they want and need. The Save Some, Share Some, Spend Some strategy is beneficial because it helps establish a saving habit for children at a young age. It also teaches how to set savings goals and manage money to meet their needs.

Resolving Credit Report Errors

Changes are coming for consumers who are disputing errors on their credit report. A new nationwide settlement means the three credit bureaus, Experian, Equifax and Trans Union must improve their procedures for correcting information on a credit report.

Currently, consumers are entitled to dispute incorrect information on their credit report. However, the consumer must prove that the information is inaccurate. If a creditor has information to the contrary, even though that information may be incorrect, often times the credit bureaus side with the creditor and find the information to be accurate. Under the new settlement, the credit bureaus must designate employees to investigate the consumer's claim on its own, separate from the creditor's investigation. If the information on the credit report is corrected, the consumer is also entitled to another credit report showing the correct information.

The settlement also changes how credit bureaus report medical debt on a credit report. Under the new agreement, the bureaus must wait 180 days before reporting the medical debt as delinquent. The waiting period allows for insurance disputes to be resolved. Also, once the debt is paid by insurance the credit bureau will now remove the information entirely from the credit report.

In addition, the credit bureaus are required to increase the visibility of annualcreditreport.com on their websites. Annualcreditreport.com is the only free website to access your credit reports. Credit reports are available through other web sites and through the credit bureaus directly, but often times accessing the credit report means signing up for a credit monitoring service. Under the settlement agreement, the credit bureaus must include a prominently labeled link to annualcreditreport.com on their website.

Changes required under this settlement should become effective in the next six to 39 months.

Besides changes to how errors on credit reports are disputed, the Fair Isaac Company (FICO) has also started to revise how credit scores are calculated. The FICO credit score is the most commonly used credit score. Under the new formula, FICO will not include any collection activity that has been paid or settled. Medical debt in collections will also hold less weight in the credit score formula. It could take up to a year for lenders to transition to the new credit score.

In the meantime, there are ways to make sure you are improving your score. The greatest impact on your credit score is paying your bills and paying them on time. Bill payment history accounts for 35% of your credit score. Ensuring you make all payments as agreed each month has a positive impact on your credit score. The reverse is also true. Frequent late payments (15-30 days late) will negatively impact your credit score.

Another way to positively impact your credit score is to pay down balances and pay off collection accounts. Unpaid collections accounts keep your credit score stagnant. Paying off these accounts will positively impact your credit score. Once the new credit scoring model goes into effect, the impact will be greater since paid or settled collection debt won't be calculated into the score.

Opening new credit cards also can negatively impact your credit score. Each new credit application brings down your credit score. Only apply for new credit when it's absolutely necessary.

By routinely checking your credit report and building good bill paying habits, you'll likely see positive results when it comes to your credit score.

Resources

www.annualcreditreport.com

www.cardhub.com

www.advantageccs.org

www.onlinebudgetadvisor.com

The Advantage Challenge

Advantage CCS challenges you to ...check your credit report to see if there are any errors on it. If you haven't checked it in awhile, get all three through www.annualcreditreport.com. Compare the three reports and see how they vary and if everything is being reported properly. If it's not, dispute the information to have it corrected. Let us know if you find any errors. Email results to hmurray@advantageccs.org.

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