Credit and Identity Theft

License. Regulate. Educate. Protect. That’s what we do at The Washington State Department of Financial Institutions (DFI). Our financial education outreach includes working with partners like The Seattle Times Newspapers In Education to help Washington residents learn more about how to handle their finances responsibly and safely. This includes being aware of the many ways consumers can get into trouble with money. With today being the start of the National Consumer Protection Week (March 6–12), we’re happy to be working with The Seattle Times Newspapers in Education to bring you information on using and building credit, the consequences of using credit incorrectly, as well as identity theft and how to avoid it.
CREDIT

What is credit?
Credit allows you to make a purchase now, and pay later. Credit is especially useful when making a big purchase like a car or a house. There are two types of credit; revolving and installment credit. Revolving credit is credit that renews when debts are paid. Credit cards are an example of revolving credit; once you pay your monthly bill your credit limit is renewed. Installment credit is debt you pay back over time, such as a mortgage or auto loan.

TYPES OF CREDIT
Credit comes in several forms:

- Credit cards
- Mortgage and auto loans
- Personal loans
- Retail accounts

CREDIT VS DEBIT

<table>
<thead>
<tr>
<th>DEBIT CARDS</th>
<th>CREDIT CARDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Linked to a checking or savings account; they have no fees unless the user overdraws the account.</td>
<td>Credit cards are like taking out a loan, the user is approved for a certain amount; many cards come with annual fees in addition to interest on the credit used.</td>
</tr>
<tr>
<td>Funds are removed from the account as soon as the card is swiped.</td>
<td>Users pay their bill once a month and must make at least the minimum payment, if not paying the full amount due.</td>
</tr>
<tr>
<td>Depending on how your card is set up, you can either only spend as much as is in your bank account or you can overdraw your account, resulting in fees.</td>
<td>User can spend up to the credit limit amount they are approved for by the lender.</td>
</tr>
<tr>
<td>Do not build credit.</td>
<td>When used properly, can help build a strong credit score.</td>
</tr>
<tr>
<td>If funds are taken fraudulently, they may not be fully insured, and it could take time to be reimbursed, leaving you with an empty checking account in the meantime.</td>
<td>Funds are usually insured, in most cases you are not liable for fraudulent charges if caught within the initial billing period.</td>
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</tbody>
</table>

TEACHERS
Go to bankrate.com or depositaccounts.com to have your students compare loan rates, credit card offers, etc.
USING CREDIT WISELY

Credit cards require a lot of responsibility. You should never charge more than 20–30 percent of your credit card’s limit. You are less likely to be able to pay the full amount owed if the bill is too high. Additionally, charging more than 30 percent of your limit can result in a lower credit score and a higher annual percentage rate (APR). Here is an example of using a credit card correctly:

- **Charge less than 20–30% of your balance to your card**
- **$50 PURCHASE**
- **Pay off entire balance each month**
- **$50 PAYMENT MADE**
- **No accumulated interest! It helps your credit score to not carry a balance**
- **$0 BALANCE**

In this example, the user charged a small amount to the card and paid the entire amount off by the due date. Since the user is not carrying over a balance, they will not be charged interest on their purchases. Paying off the entire bill each month will help maintain a good credit score.

NOT USING CREDIT WISELY

When credit cards are used improperly, they can cost the user a lot of money.

- **$1000 limit 14% APR**
- **$75 CHARGES**
- **$50 CHARGES**
- **$125 CHARGES**
- **$80 CHARGES**
- **$100 CHARGES**
- **$70 CHARGES**
- **$500 IN CHARGES**

In this example, the credit card user is charging 50 percent of their credit limit, which could result in their credit score dropping and their APR increasing. If the user makes a minimum payment of $15 a month until the card is paid off, it will take 43 months and the user will pay $136.90 in interest charges! That means instead of paying just the money they charged to the card, $500.00, they will actually pay $636.90.
Your credit report and score need your attention. They affect:

- Eligibility for a loan
- Insurance rates
- Eligibility to rent or purchase a place to live
- Employment

Decide how you are going to use the card

- Emergencies only or everyday expenses?
- Will you pay it off each month or carry a balance?

Shop around for the best card for you

- APR
- Annual fees
- Review fees and penalties

Set good habits

- Set a personal spending limit on the card(s)
- Don’t miss payments
- Set up text/email alerts, dues dates, balances etc.

A credit report is like your report card from school, but instead of a list of classes you’ve taken, it is a list of credit lines you’ve taken. It includes:

- Any lines of credit or accounts a person has open, like credit cards or loans
- Credit inquiries, or times when companies have checked your credit, within the last two years
- Public records and collections
- Personal information such as your name, birthday, social security number and more

There are three bureaus who give credit reports; Transunion, Experian, and Equifax. The ONLY place you can get one free report from each bureau every 12 months is at www.annualcreditreport.com.

Have your students explore credit reports by going to annualcreditreport.com to learn more about scores, reports and impacts.

MAKE A CREDIT ACTION PLAN

CREDIT SCORE AND REPORT

FIRST CREDIT CARD ACTION PLAN

CREDIT REPORT

TEACHERS
CREDIT SCORE

A credit score is like a GPA. On your report card, teachers grade you by your ability to do work accurately in class. On your credit report, lenders grade you on your ability to manage your credit wisely. The more responsible someone is with their credit accounts, the higher their score. The less you use credit or the more poorly you use of credit, the lower the score. Base FICO scores range 300-850 points. While not all lenders use the same number cut-off points, a general assessment of credit scores looks a bit like this:

- **750-850** Excellent Credit
- **700-749** Very Good Credit
- **650-699** Good Credit
- **600-650** Fair Credit
- **300-600** Poor Credit

A higher credit score gives a person more flexibility when they need or use credit. It will most likely be easier for them to get credit lines and be approved for higher credit amounts.

Credit is scored on five different factors:

- **NEW CREDIT**
  - When a person opens a new line of credit.

- **TYPES OF CREDIT**
  - Using more than one type of credit, such as a mortgage as well as a credit card.

- **PAYMENT HISTORY**
  - Paying bills on time is the best way to maintain a high credit score. If you don’t pay your bills, they can be sent to collections. This will drop your credit score.

- **AMOUNTS OWED**
  - Credit companies will look at how many credit accounts are carrying balances, if the user is close to using the full limit and/or maxing out credit cards often, how much is left on installment loans compared to the beginning principal and the total amount of money a person owes.

- **LENGTH OF HISTORY**
  - How long the user has been responsibly, or irresponsibly, using credit.
DEBT

When someone spends more money than they have, they can wind up in debt, which in some cases may lead to filing for bankruptcy. Bankruptcy should be a last resort, however, as it will have long-lasting detrimental impacts on your credit report. It would be better to work with a non-profit credit counselor to find a way to pay back the debt.

Here are some tips to pay back debt:

- **Make it a S.M.A.R.T. goal**
  When trying to get out of debt, setting a goal for you to work toward can be helpful. The S.M.A.R.T. acronym stands for Specific, Measurable, Attainable, Realistic and Time sensitive. An example of a S.M.A.R.T. goal would be, “I’m going to pay off 50 percent of my $200.00 credit card debt in the next two months.”

- **Assess the damage**
  Look at how much money you owe and who you owe it to. Are you spending money on necessities or wants? What unnecessary costs can you cut out?

- **Look for “leaks”**
  Leaks are small, unnecessary expenses that you make often. What most people don’t realize is that these expenses add up fast. Take a cup of coffee for example. If you buy four cups of coffee a week at $5 a cup, that is $20 a week, $80 a month, and $960 a year. That’s almost $1,000 a year you could use to pay off a debt instead.

- **Create a budget**
  A budget will help you plan where you are going to spend your money. You can allocate money to your debt and savings account first, then to your bills. Invest in your future: adding money to a savings account is important. Whether it’s for retirement, emergencies, or just to have a financial cushion, it’s best to have money set aside.

DEBT AND STUDENT LOANS

Student debt is good debt. It is an investment in your future. If you aren’t careful, however, student debt and loans can get out of control and be a drain on your finances – and your credit report - for a long time. Student loans can no longer be forgiven in bankruptcy, and can even sometimes be passed to survivors in the event of death.

There are several different types of student loans:

- **Subsidized Stafford Loans**
  These loans are taken out in the student’s name and available regardless of need. The federal government will pay the interest fees if the student is in school, in their grace period or in approved deferment.

- **Unsubsidized Stafford Loans**
  These loans are available regardless of need, but the student pays the interest fees the entire life of the loan.

- **Parent PLUS Loans**
  These loans are borrowed by the student’s parents, it’s up to them who pays it off.

- **Perkins Loans**
  These loans are available to students with great financial need.

- **Consolidation Loans**
  You can take out a consolidation loan in order to combine all eligible federal student loans into one payment. Consolidation loans use a weighted average interest rate based on your current interest rates and how much you owe on your loans.

- **Private Loans**
  These are loans not funded by the government, you can take them out from your own bank or credit union.
When you pay back debt, including your student loans, you will be paying more than the loan’s principal balance, or the original amount of money that was taken out. On top of paying back the principal, you will have to pay the compounding interest. Interest is the fee for borrowing money and accrues over time. The interest fee is dependent on the interest rate of the loan and the amount borrowed. Compound interest is like “interest on interest.” It accrues on top the loans principal as well accumulated interested.

Student Loan Repayment
When repaying student loans, there are several different repayment plans available. Federal student loan servicers work with borrowers to come up with a repayment plan that works best for their situation.

- **Standard repayment plan**
  This payment allows borrower to pay off loans in 10 years with a fixed monthly payment of at least $50.

- **Graduated repayment plan**
  An up-to-10-year plan, payments start low at first and gradually get higher as the borrower’s salary is expected to increase.

- **Extended repayment plan**
  Allows borrowers up to 25 years to pay, on either a fixed or graduated monthly payment plan.

- **Income based repayment plans**
  These plans base your monthly loan payments on your discretionary income.

For example, here are three options for an approximately $50,000 federal student loan:

<table>
<thead>
<tr>
<th>LEVEL</th>
<th>GRADUATED</th>
<th>EXTENDED LEVEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years</td>
<td>10 years</td>
<td>10 years</td>
</tr>
<tr>
<td>Monthly Payment</td>
<td>$613</td>
<td>$424–$918</td>
</tr>
<tr>
<td>Total Interest Paid</td>
<td>$21,000</td>
<td>$25,722</td>
</tr>
<tr>
<td>Total Amount Paid</td>
<td>$73,443</td>
<td>$77,676</td>
</tr>
<tr>
<td>Payoff Date</td>
<td>2025</td>
<td>2025</td>
</tr>
</tbody>
</table>

The balance of the loan changes a lot with the three different payment plans. Did you notice how much each loan gains in interest due to compound interest? The extended plan more than doubles the loan due to compound interest! While student loans can be stressful, they can help you advance your future.

There are a few other things you can do to cut down your student debt load:

- Apply for scholarships and grants; that’s money you don’t have to pay back!
- Understand your loans and loan terms before you commit.
- Look around at different colleges, they all have different tuition costs.
- Try not to take out more debt than your expected first year’s salary.
- Low monthly payments usually mean you pay much more money in the long run.
- Pay attention to interest rates! Pay on your interest while going to school.
- If you can lower your principal balance instead of just paying interest fees, the loan will not accrue as much interest.
- Federal student loan services will work with you on a payment plan that works with your needs and ability to pay.
BE AWARE OF IDENTITY THEFT

ID Theft Techniques

- **Dumperst diving**
  Still one of the top methods of ID theft; someone will go through trash until they find enough personal information to steal a person’s identity.

- **Phishing**
  A fraudster will send out an email asking for personal information disguised as a company the victim uses, such as a bank or cable company.

- **Smishing**
  Similar to phishing, but uses text messaging instead of email.

- **Shoulder surfing**
  Is someone looking over your shoulder while you are putting in your PIN number? These people could be looking over your shoulder to see and memorize or record your actions.

- **Key loggers**
  Be careful about the websites you visit and links you click on; malware can install software on your device that records everything you do.

- **Hacking**
  A hacker can get into your device and steal information on it.

- **Job recruitment scams**
  These involve a fake job posting that requires you to fill out personal information.

- **ATM skimmers**
  These are devices are placed over the credit card slot on ATM’s or gas pumps that send your debit card or credit card information—straight to the scammer.

PUBLIC WI-FI
Connecting to public Wi-Fi somewhere is something many of us do on a daily basis. Do you get the name of your location’s Wi-Fi before connecting? Do you only connect to secure Wi-Fi hotspots that require passwords? These two steps alone can help minimize your risk of ID theft over public Wi-Fi networks. If you wouldn’t shout the information out to a crowded room of people, you shouldn’t do it over unsecured Wi-Fi.

PROTECT YOUR PERSONAL INFORMATION

- **Never respond to unsolicited email or link to third party sites:** If you receive an email prompting for your personal information, go to the same web address you normally use.

- **Protect your social security number:** You should never carry documents with your SSN on them.

- **Protect credit cards:** Keeping cards in RFID (Radio Frequency Identification) protection slips will protect them from being scanned without your knowledge. In addition to your signature on the back, write “See ID” in a different color to ensure no one can use your card but you.

- **Store documents in a safe place:** Any documents with account numbers or sensitive personal information should be kept in a locked location.

- **Shred documents and mail:** Using a crosscut paper shredder, turn your documents into confetti.

SECURE YOUR TECHNOLOGY
It is important to have up-to-date antivirus and firewall protection installed on all devices. Keeping your software up to date will also help keep viruses away.

When designing passwords for new accounts, keep these tricks in mind:

- Use 8 characters or more (experts now say 32!)
- Use at least 2 numbers and 1 special character (@#$%*)
- Use different passwords for each account
- Don’t use complete words
- Think of using a phrase, rather than a word
- Change passwords frequently

TAKE PRECAUTIONS

- **Check all of your bank and card statements:** When your bank or credit card statements come go through each of them carefully, make sure you recognize all of the charges.

- **Be stingy with social media:** Information in your bio, such as birthday, family members, phone number and other personal information can be used to steal your identity. Just think what someone can do if they know your name, your age, where you go to school, where you live, your BFF’s name, the names and faces of your family members. Make sure you operate social media with the tightest security options. Lock it down. Consider using a different day or year for your birthday on social media.

- **Get a secure mailbox:** Using a locking mailbox or getting a P.O. Box is safer than having an unlocked box.

- **Sign up for alerts:** Being aware of current scams is one of the best ways to protect yourself. Sign up at: www.dfi.wa.gov/consumers/alerts.htm

WHAT TO DO IF YOU’RE A VICTIM

1. Contact your financial institution.
2. Close the compromised account.
3. Place a fraud alert on your credit reports.
4. File an ID Theft Complaint with the FTC and bring your printed ID Theft Complaint with you to the police station when you file your police report. ID theft is a federal offense!
5. File a police report.


Visit the Washington AG site atg.wa.gov/guardit.aspx to learn more about ID theft protection for WA residents, including credit freezes atg.wa.gov/security-freeze-procedures