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Immigrants and Credit

Have you come to California from another country? If you have, you are not alone. Every year more than 250,000 people move to California from other countries. American life and culture can be difficult to understand, and financial and money matters are especially confusing. This brochure explains credit—how to qualify for it, how to use it properly, and how to avoid problems.

Credit

Millions of people in the United States use *credit*, or temporary loans of money, every month. Credit can be emergency cash, a way to keep from carrying large amounts of money, or a way to “buy” what you need now, and pay for it over a period of months. When you get a loan of money or use a credit card for a consumer purchase, you are using consumer credit. For example, if you buy a car or pay a doctor's bill with a loan, or purchase a dress or television set with a credit card, this is consumer credit. When you use credit, you have to pay back the borrowed amount, and there is usually a fee for the use of the money. This fee is called the *interest* or *finance charge*. The amount of interest you pay depends on the rate set by the lender (also called a *creditor*) and the length of time you take to repay the loan.

Creditors

A *creditor* is someone who provides credit. Most banks and department stores provide *credit cards* to people who qualify for credit. *Credit cards* are small plastic cards that identify you and your credit account number. You can use these cards to buy goods and services and pay for them over time.

Installment loans are offered by banks, savings associations, credit unions, and personal finance companies. An installment loan provides you money to pay for goods or services. You arrange with the lender to make payments once a month until the total amount, including the finance charge, has been paid. Many expensive items, such as automobiles and furniture, are bought with installment loans.

Some retail sellers, like automobile dealers, offer their own retail installment sale plans. Under these plans, you pay for the merchandise or services that you purchase in equal weekly or monthly payments, in a set

amount. Often retailers' finance charges are a great deal higher than those at a bank or credit union. You should always shop for the best rate.

Qualifying for Credit

If you want to use credit, you must show that you qualify. Creditors will consider the following when you apply for credit:

- Your assets (property, savings, etc.);
- Your character (how worthy you are of trust);
- Your current salary and expenses; and
- Your *credit history* (how you have managed credit in the past).

You do not need to be a United States citizen to receive credit, but a creditor will look for ties to your community, including a job and a local credit history, before granting you credit.

Credit History

Your *credit history* is the record of how you have borrowed and repaid debts. It is one of the most important factors that creditors consider before granting people credit.

Follow these steps to establish and keep a good credit history:

- Open a checking and a savings account, and manage them carefully. Do not “bounce” checks (write checks that total more than you have in your account).
- Live in the same house or apartment for one year or more.
- Keep the same, steady, full-time job.
- Apply for a small loan at a financial institution in your area, and repay it promptly.
- Apply for a local department store or gasoline credit card, and make all payments on time.

- Apply for a credit card at a bank, and make all payments on time.
- Pay off the total amount you have borrowed as quickly as possible.

It is important for each adult wishing to use credit to have a credit history in his or her own name. For example, a married woman who suddenly becomes single would have difficulty buying a car or taking out a loan without a credit history of her own.

Credit Bureaus

Banks and other lenders pay *credit bureaus* (also called *credit reporting agencies*) to gather and report information on peoples' credit histories (*credit reports*). Your credit report states how much credit you have used, whether you have repaid your credit on time, and how you have managed your credit. The credit report also includes other private information, such as your Social Security Number and employment history. If you are turned down for a loan or credit card based on a negative credit report, the credit bureau must give you a free copy of your credit report within 60 days, if you request it. In other cases, you must pay a small fee to receive a copy of the report. You can locate a credit bureau by looking under “credit bureau” or “consumer credit reporting agency” in the yellow pages of the telephone directory.

Credit bureaus are not required to prepare credit history reports in any language but English. However, some bureaus will provide translation assistance, if you request it.

Understanding Credit Terms

The Truth in Lending Act requires that credit terms be stated in clear and easy-to-understand language. A credit contract must always state the following:

Amount financed - the amount of credit you receive (in dollars and cents).

Finance charge - the amount that credit will cost you (in dollars and cents).

Annual percentage rate (APR) - the cost of your credit expressed as a yearly rate. % is the symbol for percentage.

Some creditors offer lower finance charges and better services than others. When choosing credit, compare annual percentage rates offered by different creditors, to find the lowest rate.

Discrimination

The Equal Credit Opportunity Act prohibits creditors from basing their decisions to extend or deny credit on certain factors. Creditors may not consider any of the following:

- Sex, age, race, color, religion, or national origin;
- Marital status;
- Receipt of public income or assistance; or
- Exercising of your rights under the credit laws (for example, disputing an invalid charge on a credit account).

Be Cautious With Credit

Before you sign any credit agreement, remember that your signature legally binds you. Do not sign anything until you are sure that you understand the credit terms and can easily pay what you are promising to pay. Always compare credit terms: generally, you should choose the credit with the lowest annual percentage rate. If you cannot understand English, be sure to bring someone you trust to translate. Some financial institutions have translators or bilingual employees to assist you. Creditors who negotiate consumer credit contracts primarily in Spanish usually must give a Spanish-language translation of the con-

tract to the consumer before the consumer signs.

Many cities have banks, saving associations, or credit unions whose founders and members are from a particular ethnic or community group. Many immigrants choose these institutions because the cultural understanding and service in their native language makes them feel more at ease.

In this country, pawnbrokers are a less traditional loan source than banks or credit unions. Pawnbrokers accept items you own in exchange for a small loan. This is a source of credit for borrowers who may have few other choices. The finance charge is usually high, and you must repay the loan within the time agreed to, or lose your property. **Use this loan source with extreme caution, if at all.**

Scams and Abuses

Unfortunately, some creditors in this country are not honest. **Do not do business with people who do any of the following:**

- Approach you on the street, call you on the phone, or come to your home to offer you credit;
- Promise interest rates much lower than other creditors; or
- Refuse to tell you in clear language your payment schedule or finance charges.

Some creditors lend money with very high finance charges, and then threaten punishment (even physical harm) if the payments are not made on time. These are called *loan sharks*. Even if you are having trouble establishing credit, and see few other choices, **do not use these lenders.**

Avoiding Credit Problems

Credit is easy to use, but it can also lead to trouble.

The ease of “paying with plastic” (using credit cards instead of cash) has caused many good people to go into debt and even bankruptcy. Remember these basic tips to avoid problems:

- Plan a monthly budget that includes your regular expenses (food, rent, utilities, etc.) and credit payments, and stick to it.
- Never take out loans or make credit charges that have payments that you cannot meet with your monthly budget.
- Understand the credit terms **before** you sign anything, and get the lowest rates you can.
- Do not have more credit cards than you need. For example, you might have one bank credit card and credit cards only for the stores where you shop most often.

Credit Card Safety

It is your responsibility to protect your credit card from being stolen or used without your permission. Follow these tips to protect your card—and your credit:

- **Never** lend your card to anyone, and don’t give the number out over the telephone unless you are certain you are dealing with an honest business.
- Save all your receipts to compare to your monthly *statement* (the list of your charges and payments that the company mails you). If the statement shows purchases that you did not make (unauthorized charges), call the credit card company right away.
- If your card is stolen or lost, report it right away to the credit card company, or you may have to pay for unauthorized charges.

Community Resources

If you are having credit problems, call the toll-free

Consumer Credit Counselors National Referral Line, at 1-800-388-2227 (English) for the address of a consumer credit counselor close to you.

The Community Services section of your telephone directory yellow pages provides information about immigrant and refugee assistance programs. These groups may be able to help you with translation and refer you to more help if you have a problem with credit.

California

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