

CASA Conversations



California **CASA**
Court Appointed Special Advocates
FOR CHILDREN

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Credit

Introduction

Whether we like it or not, our society runs on credit. It is likely that as soon as youth turn 18 years old, they will be approached with offers of credit—from retail stores, credit card companies on college campuses, and more.

CASAs can help young adults make smart financial decisions to build credit without getting in over their heads.

The Facts

- By law, county welfare departments are required to run credit checks for foster youth 16 and older, and if these uncover any negative information, to refer the youth to credit counseling (WIC §10618.6).
- “Credit” encompasses more than just credit cards. Personal loans are also lines of credit.
- Neglecting utility bills or overdraft fees can affect one’s credit score. When a company or bank has exhausted its efforts to recover payment, they send your debt to a collection agency, and at this point, it shows up on your credit report.

Credit:

- Can be useful in times of emergencies.
- Is more convenient and safer than carrying large amounts of cash.
- Allows you to make large purchases (e.g. car or house) and pay over time.
- Can affect your ability to get a job, housing, or insurance, based on how you manage it.

Credit

A good rule of thumb is to only use credit for things that will maintain their value until and after you pay them off. An expensive dinner is no good to you a year later when you finally pay it off. A car, on the other hand, can continue to bring value to your life after you have paid off your loan.

It's hard to build credit when you don't yet have it, but young adults can:

- Manage bank accounts well.
- Regularly deposit money into a savings account, and use this as proof of ability to make payments.
- Pay all bills, including rent and utilities, on time and maintain documentation of this. Not paying ANY bill can hurt one's credit.
- Put bills in their own names.
- Apply for credit with a local store or gas company. These "starter" cards will likely have a lower credit limit and higher APR, but are easier to get without good, established credit.
- Keep debt levels low. As these rise, especially in relation to your income, lenders see you as a bigger and bigger risk.

Starting a CASA Conversation

Your role as a CASA is to be there while these experiences are unfolding, to share your knowledge and own experiences, and to connect the young adult with resources and services that will help her responsibly build credit.

"At 16 or 17, we all had Metro, right? But in order to move up to the Sprint or Verizon, you gotta sign that contract. And you have to have some kind of good credit to do that." - Emily

If your CASA youth or young adult expresses interest in opening a credit card or taking out a personal loan, start out by finding out her knowledge and experiences of credit.

- Did her caregivers ever talk about their own relationship with credit?
- Does she understand interest, credit scores, etc.?
- What does she want to purchase with credit, and will it maintain its value after it is paid off?

When she is ready to start searching for a line of credit, offer the following helpful hints:

- Review online and compare credit card companies. Look for those with low interest rates and no or low fees.
- Beware of introductory rates and know what the rate will be after the introductory period, as well as when that period ends.
 - For example, a retail credit card that offers "no interest for 12 months" for a large purchase may actually mean that interest is forgiven if the purchase is paid off in a year, but if not, the entire amount of accumulated interest is added to the debt on the 366th day of the loan.
- In general, stress to your young adult that they **MUST** read the fine print and understand the conditions of the card when they sign up.

Credit

And these tips are helpful in using a credit card:

- Always review your credit card statements. It will remind you where your money is going.
- Decide how you will use your card and what you will purchase with it. Think about the cost difference if you buy with cash versus credit with interest.
- Check your monthly statement to ensure it lists only things you bought. You can browse your entire spending and payment history if you set up an online account to track your credit account.
- Pay off your entire credit card bill each month if possible. At the very least, aim to pay more than the minimum balance due. This will reduce finance charges and total interest you pay on top of what you have borrowed.
- Pay on time to avoid late fees and protect your credit history. If you will be late, call the creditor to see if you can make other payment arrangements.
- Ignore offers to reduce or skip payments: this is just a way for creditors to gain increased interest from your debt.
- Be careful with blank convenience checks creditors send: these often come with high interest.
- If your credit card is lost or stolen, immediately tell your card company.

You can help your young adult monitor their credit:

- Again, BY LAW, county welfare departments are required to run credit checks for foster youth 16 and older, and if these uncover any negative information, to refer the youth to credit counseling (WIC §10618.6).
 - As a CASA, you can ensure that the department runs the report, and you can coordinate with the social worker to make sure that follow-up happens if an issue arises.
 - Once youth turn 18, it is easy for them to check their own credit. Before that, it is best to go through the child welfare department, since obtaining credit checks for minors can be difficult.
 - Best practice is to request reports from all three major credit bureaus, as there may be discrepancies among them.
 - Should you find anything concerning, it is important to advocate for keeping the case open until an attorney can address this. Because of the high risk of credit exploitation among this group, you should not wait until the last minute to do this together.
- It is FREE once a year to obtain a credit report. It might be helpful to set a month with your CASA young adult as "credit check month."

If your young adult, or anyone you know, becomes a victim of identity fraud or theft, advise the following steps:

1. Contact your financial institution and credit card issuers immediately to report the potential theft.
2. Contact one of the three major credit bureaus to discuss whether you need to place a fraud alert on file, which keeps thieves from opening new accounts.
 - Equifax 1-800-525-6285
 - Experian 1-888-397-3742
 - TransUnion 1-800-680-4338
 - Close any accounts that have been tampered with or established fraudulently.
 - File a police report to help your case with creditors who may ask for proof of the crime.
 - Report all suspicious contact to the Federal Trade Commission at: www.consumer.gov/idtheft or by calling 1-877-IDTHEFT (438-4338)

“They run your credit report in ILSP but they never explain why. Tell me, what is a credit report? Why do I need it?” - Brianna

“I wish someone had told me to read the fine print. Because otherwise I wouldn’t have this bank crisis right now.” - Ian

Additional Resources

Annual Credit Report

www.annualcreditreport.com

Annie E. Casey Foundation, Youth and Credit: Protecting the Credit of Youth in Foster Care

<http://www.aecf.org/~media/Pubs/Topics/Child%20Welfare%20Permanence/Other/YouthandCredit/YouthandCredit.pdf>

FDIC Money Smart for Young Adults: “Charge It Right”

<http://www.fdic.gov/consumers/consumer/moneysmart/young.html>

