Understanding Credit

In today's world, credit is integrated into everyday life—it is borrowed money that you can use to purchase things you need when you need them and then repay the funds back at an agreed-upon on time.

Services such as cable and telephone can be paid for on credit. For example, if you use telephone or cable services for a month or two and then pay for them at the end of that period, you are receiving services on credit.

A personal line of credit allows you to have money available when you need it. This often has a low interest rate, and the borrower can choose to use the entire credit limit at once or in smaller increments. This can be perfect for meeting ongoing credit needs such as renovating your home. A personal line of credit for an approved amount means that you do not have to keep going back for approval for each small amount you want to borrow on credit.

Credit cards allow a constant line of credit to spend and pay off regularly. You usually do not have to pay any interest as long as you pay the full amount by each due date. Before you spend using a credit card, you should be sure you can repay the amount on time, as some credit cards can have very high interest rates.

Mortgages allow you to buy a house and then pay back the amount owed at regular intervals. Mortgage payments amounts may vary. There are many different kinds of mortgages available with varying types of repayment plans.

- **Single-Payment Credit:** Items and services are paid for in a single payment, within a given time period, after the purchase. Interest is usually not charged:
  - Utility companies
  - Medical services
  - Retail stores

- **Installment Credit:** Merchandise and services are paid for in two or more regularly scheduled payments of a set amount. Interest is included. Money may also be loaned for a special purpose, with the consumer agreeing to repay the debt in two or more regularly scheduled payments:
  - Car and appliance dealers
  - Commercial banks
  - Consumer finance companies
  - Savings and loans
  - Credit unions

- **Revolving Credit:** Many items can be bought using this plan as long as the total amount does not go over the credit user's assigned dollar limit. Repayment is made at regular time intervals for any amount at or above the minimum required amount. Interest is charged on the remaining balance:
  - Retail stores
  - Financial institution credit cards

Advantages of Credit:

- Able to buy needed items now
- Don't have to carry cash
- Creates a record of purchases
- More convenient than writing checks
- Consolidates bills into one payment

Disadvantages of Credit:

- Interest (higher cost of items)
- May require additional fees
- Financial difficulties if one loses track of how much has been spent
- Increased impulse buying may occur

Credit Report

A credit report contains all the information in your credit file that could be provided to a third party, such as a lender. A credit report also includes a record of everyone who has received a consumer report about you within a certain period of time ("inquiries"). Credit reports are typically generated from one of the three major credit bureaus: Experian®, TransUnion®, and Equifax. You are entitled to receive a disclosure copy of your credit file from a consumer-reporting company under federal law and the laws of various states.

A Credit Report Contains:

Identification and employment data A
Public-record information B
Payment history C
Inquiries D

A Name, birth date, Social Security number, addresses (present and former), and employment history.

B Events that are a matter of public information related to creditworthiness, such as bankruptcies, foreclosures, or tax liens. An example: record of a dispute between the consumer and an appliance dealer that was settled in a small-claims court.

C Account record with different credit grantors, showing how much credit has been extended and how it has been repaid.

D Credit bureaus maintain a record of all credit grantors who have checked a credit record within the past six months. Credit bureaus typically do not include credit pre-screeening inquiries in credit reports, but will provide them to consumers as a part of disclosure. Pre-screening occurs when, for example, credit bureaus enable issuers of credit cards to develop mailing lists to make pre-approved offers of their credit cards.

NOTES

What is a Credit Score?

When it comes to your personal credit history, it pays to know the score. That's because many lenders—even some insurance companies—make decisions and charge rates based on your credit score. A credit score is a number based on a statistical analysis of a person's credit files to determine creditworthiness, or the likelihood that the person will pay their bills. Also knows as FICO, this number is calculated by credit bureaus, and can range from the 300s to the 800s. In general, a score of 720 or above is considered a very good credit score. However, there is no single "cutoff" score used by all companies, and there are many additional factors besides your credit score that companies use to determine your credit risk and corresponding interest rate or down payment.

Before you use credit, ask yourself these questions:

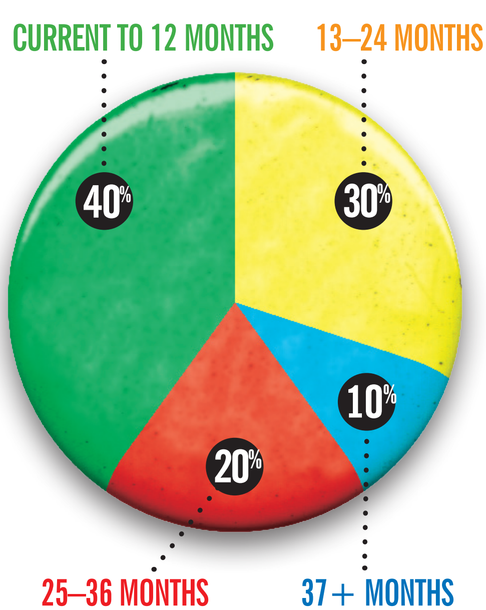
1. Do I really need this item now?
2. Do I have enough money in my debit account or in my budget this month to pay off the entire purchase?
3. If I use a credit card, what additional fees or interest will I pay to carry a balance?
4. What will I have to give up in order to buy this?

What do the Numbers Mean?

Score	Result to You
720 and up	People with scores of 720 or higher will have a good chance of obtaining loans at the best interest rates. These loans may require less documentation and paperwork, and potentially less or no down payment or collateral.
680–720	The average person a credit score in this range and will usually not be able to negotiate the best terms.
620–680	Persons with these credit scores will usually fall under "standard" company rules and have less flexibility in choosing the better loans or services.
580–620	These people will be reviewed with a critical eye and will need compensating factors to be approved by companies for most loans or services.
Under 580	A person whose credit score is in this range will typically be required to provide a substantial down payment/ collateral and/or pay a higher interest rate.

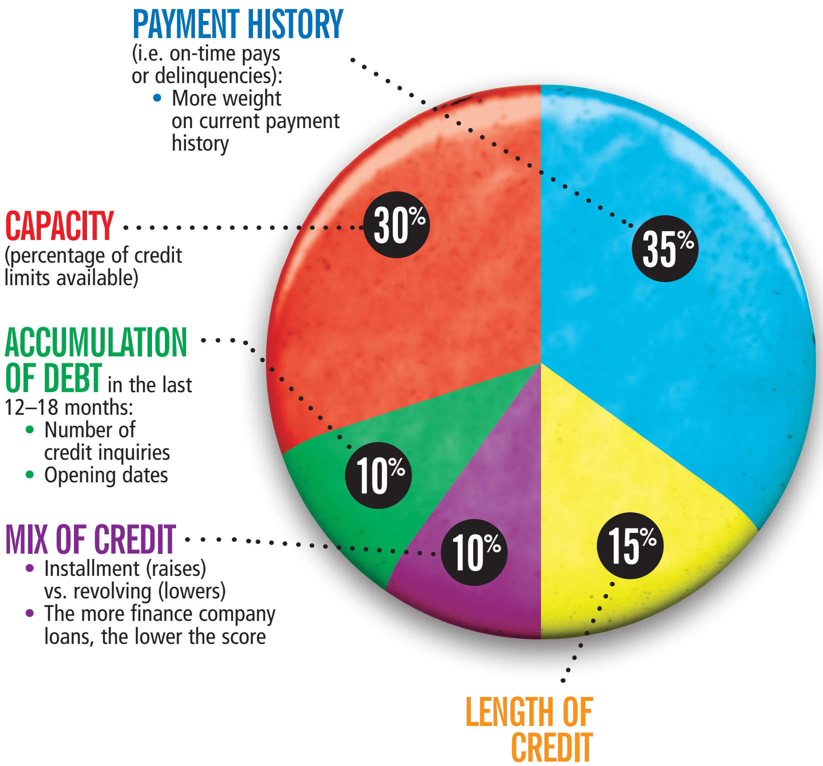
Using credit wisely is critical to building a solid credit history and maintain fiscal fitness. Repayment is an important part of the credit process.

A good credit history is the result of honoring credit repayment agreements. If not, your credit rating may be damaged and you may not be able to get credit again when you need it. A poor credit history can affect your ability to rent an apartment, get a job, or buy a car or house. You may also have to pay a higher interest rate. What's more, the mark stays on your credit record even if the bill is later paid.



Approximate Credit Weight for Each Year

What Makes up Your Credit Score?



- **What actions will hurt your credit score**
  - Missing payments—regardless of dollar amounts (it will take 24 months to restore credit with one late pay)
  - Credit cards at capacity (i.e. maxing out credit cards)
  - Closing credit cards out (this lowers available capacity)
  - Shopping for credit excessively
  - Opening up numerous credit accounts in a short time period
  - Having more revolving loans in relation to installment loans
  - Borrowing from finance companies
- **How do you improve your credit score**
  - Pay down on credit cards
  - Do not close credit cards because capacity will decrease
  - Continue to make payments on time (older late pays will become less significant with time)
  - Slow down on opening new accounts
  - Acquire a solid credit history with years of experience
  - Move revolving debt to installment debt
- **What doesn't affect your credit score**
  - Debt ratio
  - Income
  - Length of residence
  - Length of employment

Improving and Maintaining Your Credit Score

1. Check credit annually
It is important to know what your credit report states, so you can identify if there are any errors or late payments, etc. that might be affecting your score. If you do find errors with your report, you will want to dispute them with the credit bureau and reporting agency to correct them.

2. Make Payments on Time
One of the biggest contributing factors to your credit score is making your credit payments on time. Setting up automatic payments from your bank or credit union accounts will help you maintain a good payment history.

3. Reduce debt
Make a plan to begin reducing your debt. Review your credit report to make a list of all of your accounts and identify the interest rates and how much you owe on each account. Determine if you have an opportunity to restructure your debt to reduce the interest you pay by setting up bi-weekly payments, or if you can refinance to a lower interest rate. Investigate other debt reduction strategies that will help you save money or pay off other debts faster.