

Understanding Credit

Credit can play a very big part in your financial life – right now and in the future. So it's smart to find out more about it.

Credit involves borrowing money with the agreement to pay it back at a future date. Auto loans, mortgages, student loans and credit cards are just a few examples. When you're ready to apply for a loan or credit card, one of the things a lender will be interested in is your credit history.

Different kinds of credit

- Good credit means you pay what you owe on time, and lenders feel confident about lending you money. It also helps you qualify for a mortgage at the best interest rate.
- Bad credit means a history of not paying bills on time and letting debts build up. This makes it harder to qualify for loans or to get low interest rates.
- No credit just means you haven't obtained a credit card or borrowed money from a lender – so there's no record of your ability to repay the money on time. We'll describe how you can create a credit history later in this booklet.

Here's how to maintain and establish good credit:

- Pay all your bills on time (housing, utilities, phone, etc.)
- Open a checking or savings account
- Apply for a credit card with the lowest possible interest rate
- Control your debt and avoid missing payments
- Keep within a reasonable budget
- Submit your full legal name on all credit applications.

Want to know where you stand? Ask for your credit report.

Every time you use your credit card or make a loan payment, your actions become part of your credit record. It's a way of keeping track of how well you handle credit. Everything that makes up the credit record is listed on your credit report.

Lenders rely on credit reports to decide how likely you'll be to repay any money they lend you. A credit report is also the main tool a mortgage lender uses in deciding whether to lend to you.

Here's what's in your credit report:

- Your name, past and present addresses, date of birth and social security number
- A listing of past and present employment
- Details about your debts and obligations over the past 7 years
- The payment history for your loans or credit card(s)
- Anything of public record including bankruptcy and tax liens

How to request your credit report

Credit-reporting agencies:

Equifax: 1.800.685.1111

www.equifax.com

Experien: 1.888.EXPERIAN (397.3742)

www.experian.com

TransUnion: 1.800.888.4213

www.transunion.com

What is a credit score?

Along with your credit report, lenders will often request a credit score, called a FICO* score, to help decide whether you're eligible for a loan. A median credit (FICO) score ranges from 690 to 740. It's a summary of your credit information and covers the areas in the chart below.

Your FICO score reflects...

- 35% Payment History
- 30% Amounts Owned
- 15% length of Credit History
- 10% New Credit
- 10% Types of Credit Used

If you're applying for a home loan, lenders may also consider other factors such as income, employment history, amount in your savings account, number of times your credit information has been requested, type of loan you're applying for and the value of property. All of this information, taken together, can help determine whether a lender will make a loan to you and what interest rate you'll pay.

If you don't have a credit history. . .

If you've never had a credit card or taken out a loan, you can create what's called a nontraditional credit history. This will show lenders that you're responsible about paying your bills and dealing with credit.

Here's how to create a nontraditional credit history:

- Always pay your bills on time
- Retain copies of monthly bills
- such as rent, telephone and utilities
- Keep copies of canceled checks (for the past two years) to show you paid your bills on time
- Request a reference letter from your landlord, the telephone company or utility company stating the duration and favorable payment history for your account
- Apply for a credit card with a low interest rate and be sure to make payments on time

Here's how to control your spending habits and improve your credit:

- Establish and maintain a budget to manage your expenses
- Set realistic spending goals and stick to them
- Track *your* spending and keep copies *of your* receipts
- .Keep credit card balances *low* and avoid late payments
- Save up over time *for* large purchases