

# Credit

What is it? • Do I even need it? • How do I use it?

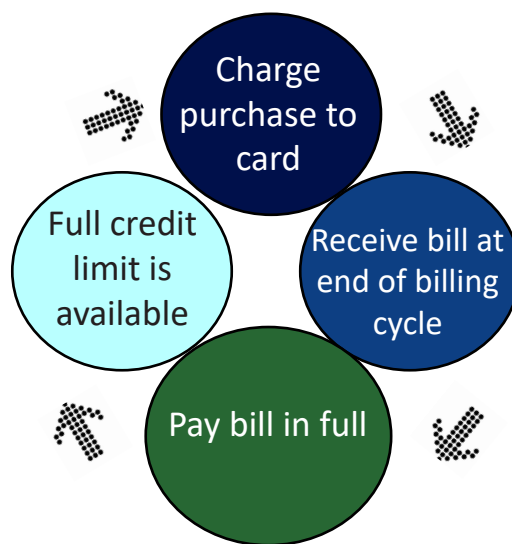
Simply put, credit is borrowing money now, and promising to pay it back later. Some common forms of credit you have probably heard about include:

- Credit cards
- Home mortgage
- Student loans



## Revolving credit

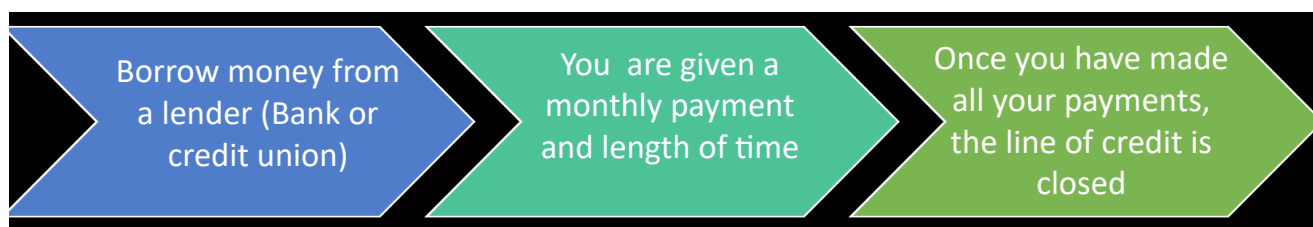
With revolving credit, you are given a credit limit, a certain amount you can spend. As you spend the borrowed money, you can either pay it all back at the end of the billing cycle, or make a small payment and carry the rest of the balance over to the next billing cycle. Once you have paid all the borrowed money back, you will have access to borrow the entire credit limit again.



## Installment credit



Installment credit is given in a large lump sum and the borrower agrees to make a monthly payments for a set amount of months until the loan is paid off.



## Why do we need credit?

**Credit** is a tool to help you make big purchases. When you buy a home or a car, the bank will check your credit before deciding whether or not to give you the loan. Your credit helps the bank determine if you are a good borrower who will pay the money back.



Your credit score will affect the interest rates on future lines of credit and some insurance policies you take out. If you have a bad credit score, the interest will be higher and more expensive.



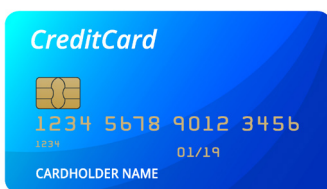
Most people don't have enough money in savings to buy a house or car with cash, so they apply for a mortgage or auto loan. You must have a good credit history to qualify for these loans. Your history can also affect whether or not you can rent a place to live.



Your credit score can affect your ability to get a job. In some career fields, your credit score must be at a certain number before they can hire you.

## Interest

Interest is the fee you are charged for borrowing the money. It accrues differently on different types of credit. The interest rate you are given determines how much your interest payment will be. Here is an example:



Credit card balance: \$200

Interest rate: 16%

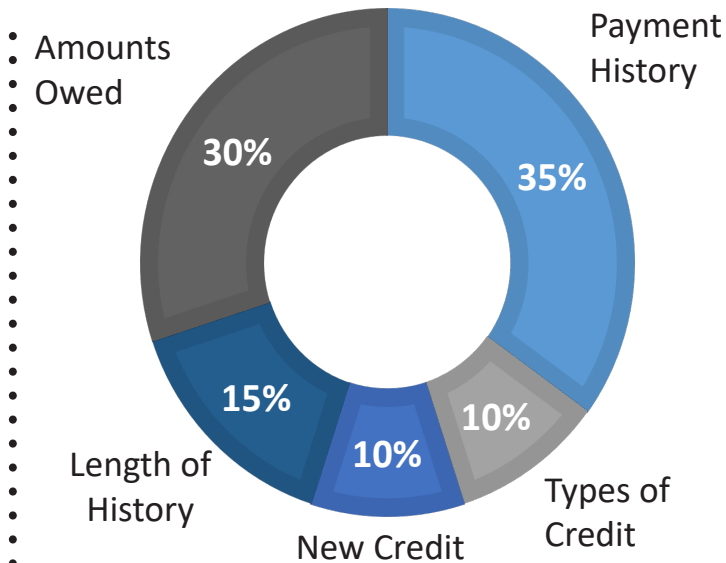
Minimum payment: \$15.00 (2% of balance)

When paying only the minimum payment, it will take 15 months and an added \$21.69 in interest to pay off

## Credit Reports

- A credit report is a list of all the lines of credit you have in your name
- Credit reports contain the status of each line of credit you have, such as how much debt is owed and whether or not you are up to date with your payments
- You can check your credit reports for free once a year at [www.annualcreditreport.com](http://www.annualcreditreport.com).

## How credit scoring works



**35% Payment history-** Paying all your bills on time is the best way to keep your score high

**30% Amounts owed-** Taking out too much debt can negatively affect your score. Only take out as much as you can afford

**15% Length of history-** The longer you use credit wisely, the better your score will be

**10% New credit-** When you take out lines of credit sparingly, and pay them on time, it will positively affect your score

**10% Types of credit-** Having a variety of types of revolving and installment credit will round out your credit profile

## Credit score breakdown

Your credit score will range between 330 and 850. In order to get the best interest rates and the highest chance of being approved for new lines of credit with the best interest rates, you want your score to stay above 670.

**330-579**

**Very poor**

**580-669**

**Fair**

**670-739**

**Good**

**740-799**

**Very good**

**800-850**

**Excellent**

## Credit rules to live by

- Credit cards are NOT spare cash- you must pay back all the money you spend/charge
- If you don't have the cash to cover the "want," don't use your credit card for it
- Use on necessary purchases
- Only charge 20-30% of the credit limit to a credit card
- Pay the balance off every month in full to avoid paying interest
- Pay on time so you don't get hit with a late fee. Late payments can drop your credit score significantly!

