**You are in control of your credit!**

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**Objectives are as follows:**

* Weigh the cost of credit against the advantages
* Identify advantages and disadvantages of using credit
* Describe ways to build credit
* Understand the importance of credit scores and reports
* Understand how scores are calculated
* Identify steps to obtain credit reports

**Advantages of using credit**

* Enjoy the convenience
* Enjoy goods and services now
* Reduce the need to carry cash
* Buy when funds are low
* Shop on the Internet and by telephone
* Pay for emergencies
* Obtain an education
* Make travel reservations
* Pay off several purchases with one monthly payment
* Easily return merchandise
* Provide recordkeeping for business expense
* Track your spending
* Buy expensive items sooner rather than later (home – vehicle)

**Disadvantages of using credit**

* Increase credit related solicitations via mail, e-mail, text, and telephone calls
* Reduced privacy when providers sell your personal information to others for solicitation
* Increases possibility of identity theft
* Tempting to spend more money
* Future income is committed to previous credit contracts
* Risk of over indebtedness is real
* Negative impact on relationships
* Declaring personal bankruptcy
* Negatively impact one’s credit history and credit score
* Interest is costly (18% or higher)

**Steps to create a good credit history**

1. Establish both a checking account and a savings account. (Lenders see people who can handle these accounts as being more likely to manage credit usage properly).

2. Have a smartphone and a utility bill in your name. (Maintain a good payment pattern on all of your bills – if you are maintaining a current account on these it indicates that you can manage your money wisely and will do the same with credit payments)

3. Request, acquire, and use credit cards from retail sellers and businesses. (These cards are easy to obtain. Use credit sparingly and pay the entire balance in full and on time each month.)

4. Apply for a bank credit card. (Start with your own bank. If not successful, go to **www.bankrate.com** to search for other banks that will issue a card to you. Please note that the limit may be lower.)

5. Stay current on your student loans. (Making payments on time and paying off student loans quickly will show prospective lenders that you are a responsible borrower.)

**Credit Scores**

Your personal credit score is built on your credit history and the average score for Americans is 701. A FICO® Score is one of the credit scores most commonly used by lenders to assess credit risk. Credit scores range from ***300 to 850***.

* A score of 300-579 is very poor
* 580-699 is fair. You can still qualify for loans and credit cards with a lower FICO® Score,

 but you may be required to pay higher interest rates, make a bigger down payment or

 pay additional fees. Your landlord may require a credit check before they will rent you an

 apartment. A lower credit score could put you at risk for securing a place.

* A score of 670-739 is good
* 740-799 is very good. If your score is above 740, you can generally expect lenders to

 offer you better-than-average interest rates.

* 800-850 is an exceptional credit score. As you move closer to the top score of 850, you'll

 qualify for the lowest interest rates and the most premium credit card offers.

**How credit scores are calculated**



**Payment history 35%**

* Paying bills on time helps your credit score. (Late on your payments? How late? How often?)

**Amounts owed 30%**

* Experts recommend using no more than 30% of your total credit card borrowing limit to avoid lowering credit scores. The amounts owed or credit usage, also known as your [credit utilization rate](https://www.experian.com/blogs/ask-experian/credit-education/score-basics/credit-utilization-rate/). (What is the balance on each of your credit obligations? How do the amounts owed vary on various types of accounts, credit cards versus loans? How many accounts have balances? Are you maxed out or nearly on your loans?

**Length of credit history 15%**

* Establishing a record of timely payments will help build scores as credit history stretches out. (How long has it been since you used the accounts? How long have you had each account?)

**Types of credit used – Credit Mix 10%**

* This reflects your total outstanding debt and the types of credit you use. You should have a variety of loan types, including both installment credit (loans with fixed monthly payments) and revolving credit (like credit cards and the ability to carry a balance). (Do you have a good mix of credit usage loans & credit cards? How many accounts in total do you have?)
* Applying for a loan or credit card triggers a process known as a hard inquiry. This creates a hard inquiry, which will lower your credit score by a few points, but as long as you continue to pay your bills on time, scores typically increase within a few months. A *soft inquiry* and does not impact your credit score. (How many new accounts do you have? How long has it been since you opened a new account?, How many recent inquires have been made by lenders to which you have made application?, If you had a period of poor credit usage in the past, how long have you been in good standing?)

**New Credit 10%**

* Applying for a loan or credit card triggers a process known as a hard inquiry. This creates a hard inquiry, which will lower your credit score by a few points, but as long as you continue to pay your bills on time, scores typically increase within a few months. A *soft inquiry* and does not impact your credit score. (How many new accounts do you have? How long has it been since you opened a new account?, How many recent inquires have been made by lenders to which you have made application?, If you had a period of poor credit usage in the past, how long have you been in good standing?)

**ANNUALCREDITREPORT.COM**

Experian, Equifax, and Transunion are the three credit reporting agencies that house your credit reports. You may obtain free copies of your credit reports every 12 months from each of the three credit reporting agencies annually. Federal law allows you to get a free copy of your credit report every 12 months from each credit reporting company. Due to the pandemic, you are able to obtain free copies of your credit reports weekly until April 2022.

It’s easy to do. Click on the *“request your free credit reports”* red tab. Next, you are required to complete a few steps, which are to *fill out a form*, *pick the reports you want*, and then *request and review your reports online*. You also have that option to save the file on your computer as well. There is a flip side to this, for example if you are not granted access to your report online as a result of incorrect answers to questions asked, you can also complete a form requesting your credit reports be sent to your home address.

**Key Terms**

**Credit -** It describes an arrangement in which goods, services, or money is received in exchange for a promise to repay at a future date. Also, note that if the lender believes that a prospective borrower has both the ability and the willingness to repay money, then credit will be extended.

**Credit Application** - In order to obtain credit you must complete a credit application. A *credit application* is a request for an extension of credit either orally or written form. It provides information that shed light on your ability and willingness to repay debts, such as your income, assets, and debts.

**Credit Score** - It is a three-digit number calculated using the information in your credit reports. A decent credit score is essential for your financial well-being because the higher it is, the less of a credit risk you are. Lenders use your credit score to determine if they will approve your request for credit.

**Identity Theft (ID)** - Identity (ID) theft happens when someone steals your personal information and identity to commit fraud. It is the crime of obtaining the personal or financial information of another person, such as a Social Security or credit card number, for the purpose of assuming that person’s name or identity in order to obtain money or credit or to make transactions or purchases.

**Summary**

As you stay in control of your credit:

* Understand the pros and cons of using credit
* Identify the advantages and disadvantages of using credit
* Establish a good credit history if you have a negative credit history, low credit score, or

 been a victim of Identity Theft

* Become familiar with your credit scores and request free copies of your credit reports

 from annualcreditreport.com

