

Credit and Credit Score Basics

What is credit?

Credit is borrowed money that you can use to purchase goods and services when you need them. You can get credit from a credit grantor that you agree to pay back in full with the addition of fees and charges that were agreed upon.

There are 4 types of credit:

1. Revolving credit: a maximum credit limit and make charges up to that limit. Each month you carry a balance and make a payment. This is the most common form of credit.
2. Charge cards: These often look like revolving credit and are used in a similar way. BUT you must pay the total balance in full each month.
3. Service credit: Your agreements with a service provider that you pay for each month. They do not all show up on a credit report. Examples: phone bill, electric bill
4. Installment credit: A creditor loans you a specific amount of money and you agree to repay that money and interest in regular payments of a fixed amount over a period of time.

Examples: Home mortgages, car loans

What is a credit score?

Your credit score determines how likely you are to pay back the money that is loaned to you. Scores are calculated based on:

- Payment history
- Amount of money owed
- Length of credit history
- Type of credit used

What will help you build your score?

- Not missing any payments
- Having recent credit that is in good standing
- Not having any collections

Good Debt: Will help you to generate income and allows for an increase in your net worth.

Examples: education, business ownership, and real estate (home ownership)

Bad Debt: Will not bring you income or go up in value. Examples: credit cards, payday loans, car loans

Credit Report Information

With more information, **you** are able to take control of your finances.

Credit Reports

A credit report is a complete review of your financial past, including payment history, total debt, and more. Errors on your report can affect your credit score.

What is a credit report made up of?

Personal information – social security number, address, date of birth, and employer

Credit History – from banks, furniture stores, car dealers, etc. and information about bounced checks, credit cards, late payments, and utility bills.

Other Financial Information – delinquent payments, current balances, tax liens, bankruptcy

You are entitled you a FREE credit report from EACH of the three credit bureaus every year. If you haven't check in a long time, it's best to request all three at one time to check for discrepancies or inaccurate information. If you've check recently, you can pace out your credit reports over the year.

The site: annualcreditreport.com

Errors on Credit Report - This is a long, arduous process to get errors removed but you should still do so. Request a written confirmation from each company who has a listed error asking them to close the account. Keep as much documentation as possible.

Credit Score

The financial and credit history make up a **credit worthiness score** or your credit score.

You have over 50+ credit scores so whatever one you see isn't your exact score, it's an approximation.

You can get a free credit score at Discover.com and CreditKarma.com. But don't pay for your score!

*There are **many** scam sites that will require credit card information to get your score.*

Excellent	Very Good	Good	Fair	Poor	Very Bad
800-850	750-799	700-749	650-699	600-649	300-599

Expect the lowest possible interest rates and best terms.

You will be eligible for most loans with good rates.

Only secured loans are given for people in this range.

Improve your Credit Score – pay bills on time, keep card balances low, refrain from opening a lot of new amounts at once, maintain long-term relationships with creditors. Not being in debt is more important than a good credit score.

Special Circumstances for Survivors

Has your partner ever opened an account in your name?

Has your partner ever charged goods and services to your credit card?

Has your partner ever contacted a creditor about you?

Has your partner ever attempted to access your credit information?

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What hurts a credit score?

- Credit cards at capacity (maxed out)
- Closing credit cards (lowers revolving available credit)
- Too Many Cards (too much available revolving credit)
- Missing credit/loan payments (takes 24 months to restore credit after one late payment)
- Credit shopping (numerous inquiries)
- Opening several trade lines in a short period of time
- Having more revolving loans in relation to closed end installment loans
- Defaulting on other bills (outstanding medical bills, utilities, cell phone etc...)

What helps a credit score?

- Reduce and eliminate debt.
- Pay your bills on time.
- Keep your card balances low. Don't use all of your available credit.
- Refrain from opening a lot of new accounts at once. Multiple applications can have a devastating effect on your credit score.
- Maintain long-term relationships with creditors. Consolidating balances or moving debt around could be possibly harmful to your score if your closing established accounts in favor of new accounts to consolidate debt.
- Monitor your credit report and dispute errors.
- Pay off old debts.

Managing Debt

- ✓ **Not all debt is bad.**
- ✓ Sort your debt into "bad debt" and "good debt"
 - Good debt is debt that is used to buy assets that will pay you income or increase in value over time. (Example: home mortgage, student loan, or an investment.)
 - Bad debt is used to buy things that generally go down in value over time. (Example: car, television, or furniture)
- ✓ Credit cards CAN continue to build debt and negatively affect your credit when large balances linger and payments are missed or only the minimum is paid.
- ✓ Compile a list of all your debts
- ✓ Prioritize and decide which debts to pay first
- ✓ Contact creditors if you are unable to pay your bills to work out a payment plan
- ✓ Correct any mistakes on your credit report
- ✓ Consider debt consolidation
- ✓ Seek credit counseling from a non-profit organization if additional assistance is needed.
- ✓ *Stop incurring additional debt.*