

EDUCATED FINANCIAL CHOICES...

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EDUCATION FINANCE COUNCIL



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EFC's Guide to Credit

"Credit" is the ability to borrow money, typically from a bank or other financial institution. When used responsibly, credit is a valuable and convenient tool. However, when used carelessly, credit can be costly and may even limit the financial options available to you in the future.

Your Credit Report

Before making a loan, a bank or financial institution will attempt to determine your "creditworthiness." Creditworthiness is the likelihood that you'll pay back the money you borrowed in a timely and responsible manner.

To help financial institutions determine your creditworthiness, they will access your credit report.

A credit report includes:

- Personal information (your name, address and employer's contact information) and
- Your "credit history" (information about every credit account that you have ever applied for and/or opened, including the credit limit, outstanding balance and whether payments were made on time for each account).

Your Credit Score

Credit reports can be long and complicated. To help financial institutions interpret credit reports quickly, "credit bureaus" analyze individual credit histories and assign them a "score."

The most popular credit score is called the FICO® score and it can range from 300 to 850, with 850 being the highest score available. The higher your credit score, the more likely you are to be approved for credit or offered a favorable interest rate.

In general, your credit score is based on:

- The length of your credit history
- Whether your payments have been regular and on-time
- The amount you owe relative to your income (your "debt-to-income" ratio)
- How many lines of credit you currently have (or have applied for)
- The types of credit you have (such as credit card accounts or home loans)

Tips for Improving Your Credit Score

Consider an example of how a good credit score can save you money. According to www.myfico.com, the company that developed the credit score used by most lenders, a person with a FICO® score of 760 or better will pay \$226 less per month for a \$216,000, 30-year, fixed-rate mortgage than a person with a FICO® score of 620 – **that's a savings of \$2,712 per year.**

If your credit score is low, work to improve it! And if your credit score is high, maintain it! Consider taking the following steps to help maintain and/or improve your credit history:

- Make payments on time
- Gradually reduce the amount you owe
- Pay off high interest debt first
- Pay more than the minimum payment required if possible
- Limit the number of credit cards you carry
- Avoid additional borrowing
- Contact your lender and try to negotiate a lower interest rate
- Start a savings account and make regular deposits, **even if they are small.** Lenders like to see a consistent savings pattern.

Take Charge of Your Credit

Credit is an important tool that all consumers are likely to use at one point or another. While the misuse of credit can be costly, **don't be afraid of using credit.** It is a valuable tool that can help you achieve a number of financial goals, such as owning a home, or financing a college education.

However, **remember that it pays to be smart.** Be sure to do your homework before borrowing and to ask for help from a trusted adult or financial professional.

And be vigilant! Three national credit bureaus are authorized to review your credit report to assess your creditworthiness: Equifax, Experian and TransUnion. Federal law entitles you to a **free copy** of your credit report every year from each of the three credit bureaus. You can request your credit report from the individual bureaus or at www.annualcreditreport.com.

Checking your credit report annually will help you catch errors and deter unauthorized access to your financial accounts. **Report any errors that you may discover immediately.** And remember, your hard work **will pay off in the long run** by providing you with greater financial security and independence.

Learn more! Consider visiting the [website of the Federal Trade Commission](http://www.ftc.gov), a Federal agency whose mission is to help protect consumers, for additional information that will help you manage credit responsibly.