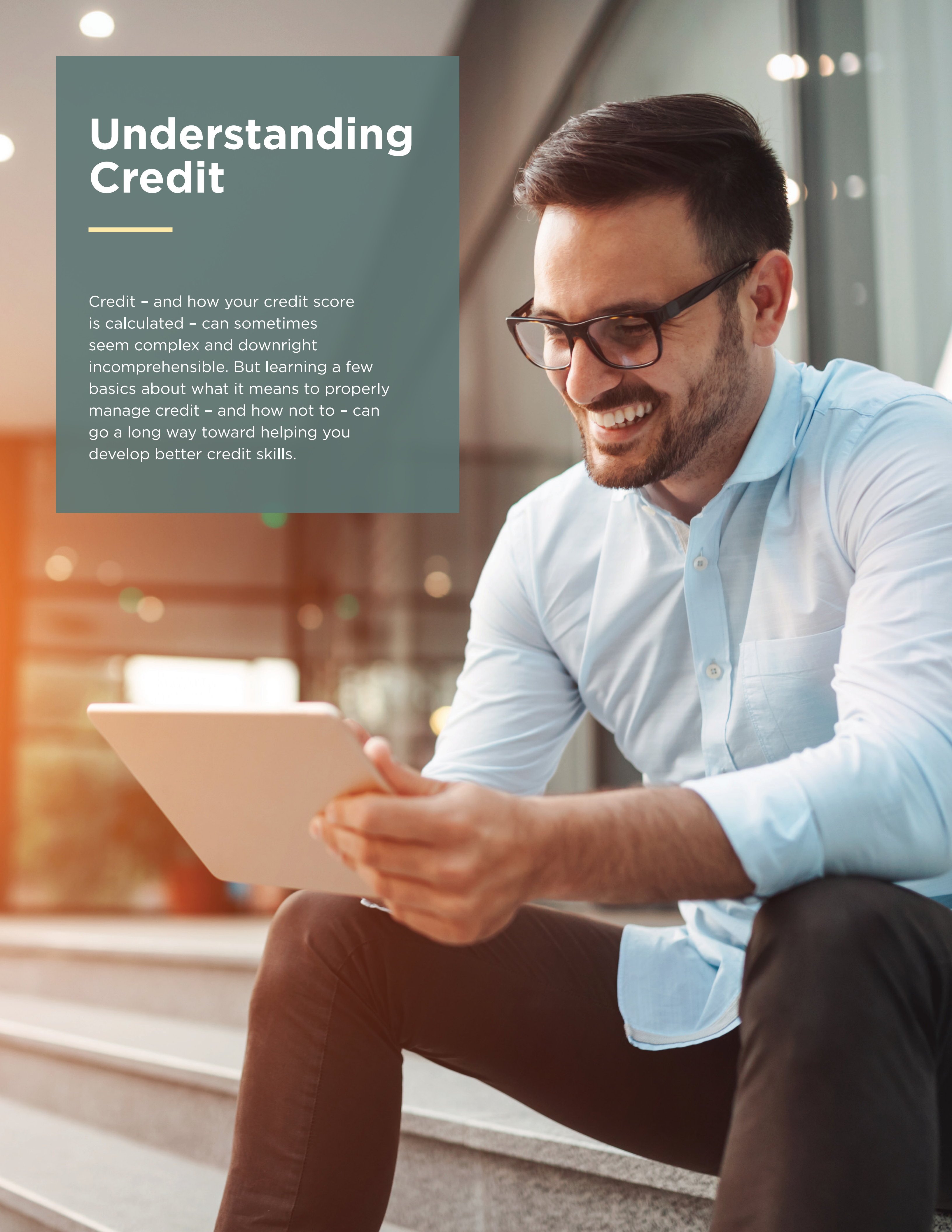
Understanding Credit

Credit – and how your credit score is calculated – can sometimes seem complex and downright incomprehensible. But learning a few basics about what it means to properly manage credit – and how not to – can go a long way toward helping you develop better credit skills.



What Do You Know About Credit?

Before learning about credit, give yourself a little quiz to assess your current understanding of and approach towards using credit.

Are you credit ready? Each A is worth 5, each B is 3, each C is 2 and each D is 1.

1. Your aunt gives you $50 for your birthday, would you...
   a) Put it in your savings account
   b) Buy yourself something you need
   c) Consider it extra spending money
   d) Treat yourself to a night out

2. If you got a new job, would you...
   a) Open a savings account immediately
   b) Wait until your first paycheck and then decide what to do
   c) Make a plan to pay off your bills
   d) Start shopping for a new cell phone

3. If a bill is due on the 1st of the month, would you make the payment...
   a) At least 10 days in advance
   b) Around 5 days in advance
   c) On the due date
   d) When you had the money

4. How often do you buy on impulse?
   a) Never
   b) Very rarely
   c) Sometimes
   d) Almost always

5. When you owe somebody money, do you feel...
   a) Uncomfortable until it's all paid off
   b) Aware of the debt, but not uncomfortable about it
   c) Interested in paying it off as soon as it was convenient
   d) Willing to pay, but not in a hurry

6. If your best friend asked to borrow $50 from you, would you...
   a) Lend it but only in the case of an emergency
   b) Be happy to lend it
   c) Be willing to lend it but want to know when you would be paid back
   d) Not be willing to lend it

7. When you buy something, do you...
   a) Have to be sure of all the details beforehand
   b) Ask some questions but not too many
   c) Listen to what the salesperson tells you
   d) Assume everything will be ok

8. If you had a credit card and owed $100 and had the cash to pay, would you...
   a) Pay the bill in full
   b) Pay $50 and keep the rest for spending
   c) Pay $25 and put the rest in savings
   d) Pay the minimum of $10 and use the rest for other bills

9. If you had a credit card and were shopping for something, would you...
   a) Consider the price, cost of credit and quality of the item
   b) Just shop for the best price
   c) Buy the best quality regardless of price
   d) Buy what you want even if it's expensive

10. If you have $20 in your pocket, do you...
   a) Hang onto it no matter what
   b) Spend it but only if you must
   c) Spend it but on something you really want
   d) Spend it on just about anything

How did you do?

45-50: You're a Financial Wizard. Money smart and credit conscious.

30-44: You're a Smart Shopper. Clever about money but you could be more sensitive about credit costs.

19-29: You're a Casual Consumer. Too relaxed about price and credit terms for your own good. There could be trouble ahead.

1-18: You're a Big Spender. Love to buy but not savvy about getting the best value. Handling credit could be a real crisis. Caution.

The Three C’s of Credit

A lender looks at three areas of your financial life when deciding whether to lend you money:

Your Character: From your credit history, the lender attempts to determine if you possess the honesty and reliability to repay the debt. Seeing whether you pay your bills on time and are able to provide character references helps a lender determine your credit character.

Your Capital: The lender may want to know if you have any assets that could serve as collateral if you fail to repay. Having a savings account, a steady job, property, and investments help you have good credit capital.

Your Capacity: This refers to your ability to repay your debts. The lender may look to see that you are working regularly in an occupation that is likely to pay enough income to pay for your credit use. If you have high expenses and lots of debt, a lender might not feel you have the capacity to take on more credit.

Each of these factors plays into your ability to maintain credit and repay debts, so they are all important considerations to lenders.

Improving Your Credit Score

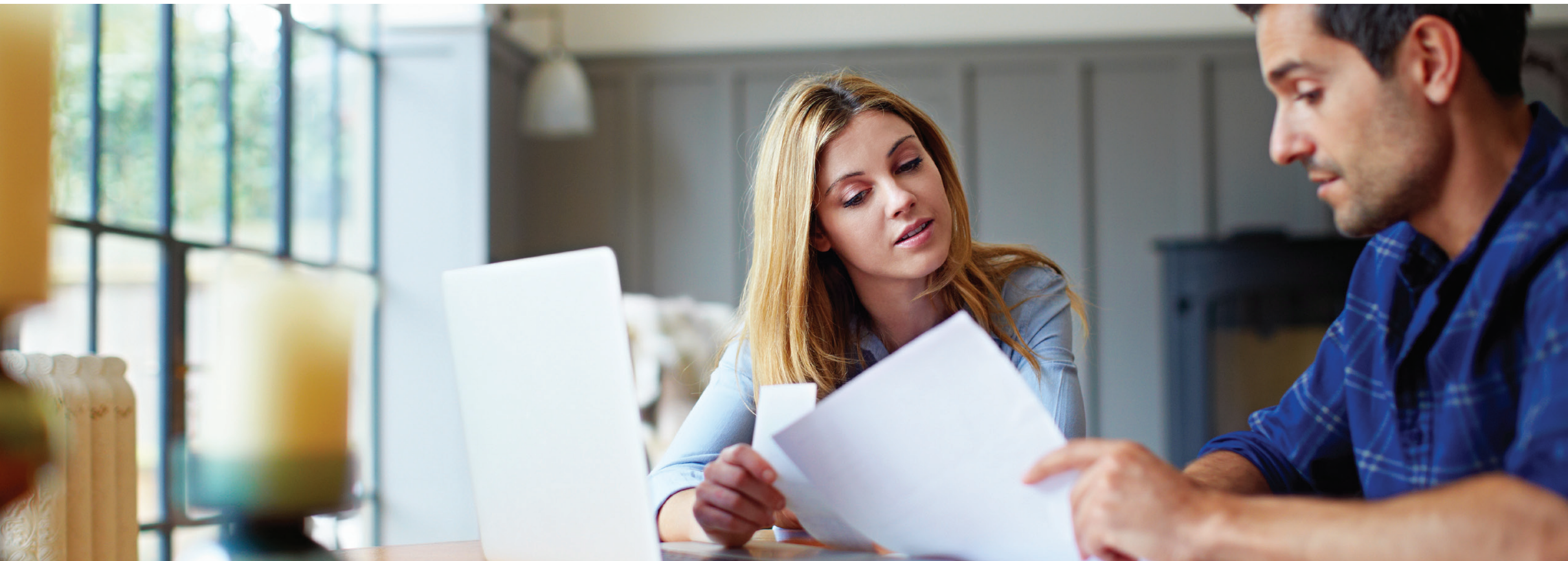
Your credit score can range from 300 to 850 – and the higher, the better. There are many ways to improve your credit score:

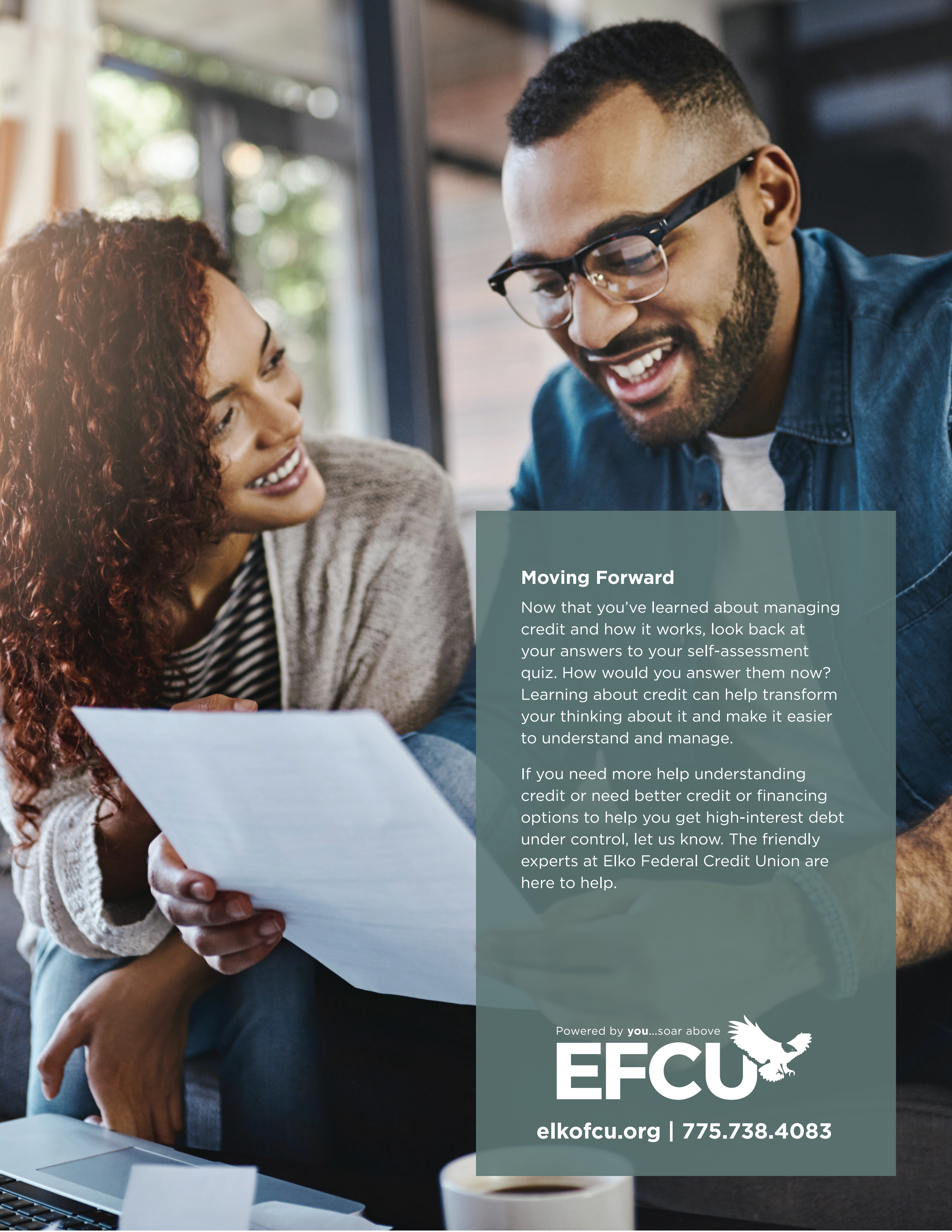
- Pay your bills on time. Even one late payment can adversely affect your score, so stay on top of billing due dates and use auto-payment options when possible and set aside a day every week to check upcoming payments you need to make.
- Keep credit card balances below 25% of your available credit. Using more could make lenders think you may be unable to repay additional credit.
- Avoid applying for new credit accounts frequently. Every time you apply for and open a new credit account, your credit score goes down. That's because frequent checks look suspicious to lenders, who might think you're desperate for a loan.
- Use a variety of credit types, including credit cards, auto loans, store accounts, and a mortgage – all of which show that you know how to use credit appropriately.
- Check your credit reports annually – or whenever you suspect trouble. You are entitled to a free report each year from the three major credit-reporting agencies: Experian, Equifax, and TransUnion.
- Get help if you need it. Nonprofit credit counseling services can help you get your credit life back on track if your credit score needs a significant boost or you need help managing your debt.

The Warning Signs of Credit Problems

Sometimes credit problems sneak up on us – but there are always warning signs. Here are some to watch for:

- Getting a credit card bill that is much larger than you expected.
- Using a cash advance from one credit card to make a payment on another card.
- Completing every new credit card offer you get in the mail.
- Regularly spending most of your monthly pay.
- Forgetting to open your loan statement and to make the monthly payment.
- Having a bill collector call you.
- Taking out money from your savings account to make a minimum payment on your credit card.
- Not knowing how much you owe on your credit cards or charge accounts.
- Finding that there was a late fee charged on your credit card.
- Receiving a notice that if your loan payment is not paid in 10 days it will go into collections.
- Closing your savings account because you never seem to have any money in it.
- Making an impulse buy because you were tempted by the item's low monthly payments.





Moving Forward

Now that you've learned about managing credit and how it works, look back at your answers to your self-assessment quiz. How would you answer them now? Learning about credit can help transform your thinking about it and make it easier to understand and manage.

If you need more help understanding credit or need better credit or financing options to help you get high-interest debt under control, let us know. The friendly experts at Elko Federal Credit Union are here to help.

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