

### Credit in Real Life: A Story

Laila was a hard-working banker with a good salary. When she wasn't working, she liked to indulge herself. She bought a lot of designer clothes, drove a fancy car, and took expensive vacations. She was too busy to cook, so she ate most meals in restaurants. She rarely carried cash; she just charged everything on her credit cards.

She decided to apply for a better job at a bigger bank where her friend worked. When she didn't get the job, she asked her friend to find out why. She was so embarrassed when her friend said, "Because you have a bad credit history!"

Laila made a lot of money, but she spent more



than she made! She had piled up a ton of credit card debt, and she never made more than the minimum payment. And

frequently she was so busy that she forgot to pay her bills on time!

Laila knew that she had to get serious about managing her own money. She cut way back on credit card use and started paying down her debt. She set up automated payments so her bills got paid on time. Laila had a lot of work to do to correct her mistakes, but she knew she could do it—it would just take time and self-discipline. Her future plans—like getting a better job, buying a house, and saving for retirement—depended on improving her credit!

#### Credit Bureaus

Experian ([www.experian.com](http://www.experian.com))

TransUnion ([www.transunion.com](http://www.transunion.com))

Equifax ([www.equifax.com](http://www.equifax.com))



### What You Can Do

**Purchase what you can afford—don't splurge.**  
*This will limit your debt and ensure you can make your monthly payments on time.*

**Keep track of your FICO score and credit history.**

*Contact the three credit bureaus every year to take advantage of your free annual credit report. Correct mistakes you find and keep working to raise your score.*

**Don't open a lot of credit accounts or take out too many loans.**

*Lenders don't want to give you money if you already have a lot of accounts open. If you are using many different credit cards or loans to cover your daily expenses, you may have a bigger money management problem.*

**Work to correct bad financial habits, like making late payments.**

*Everyone makes a mistake sometimes, but be sure those mistakes aren't really bad habits. Pay your bills on time and don't use credit carelessly.*

**Avoid credit traps.**

*There are good and bad ways to use credit. Credit card companies want you to use the card—and they want you to only make the minimum payment! Be sure not to sign up for too many cards just because you can get approved for them or because the store will give you a discount if you use their store credit card.*

## Credit: What You Need to Know



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## What Is Credit?

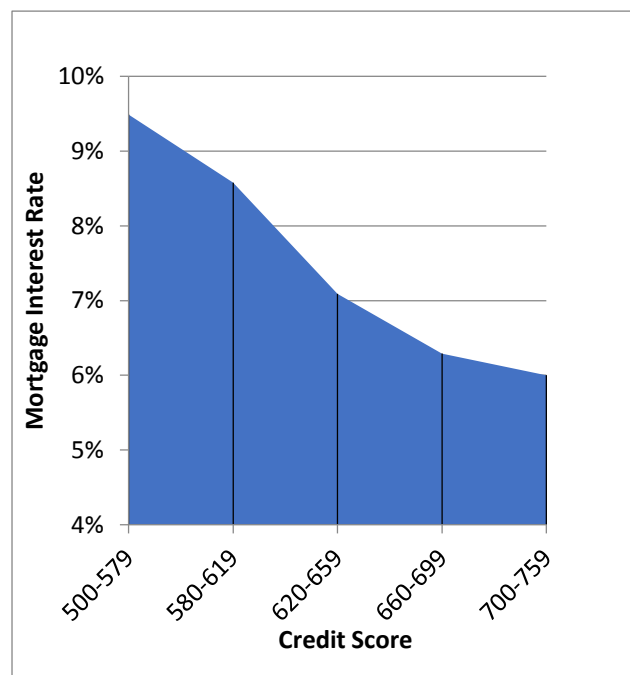
Credit is the ability to borrow money. In other words, credit means you can buy goods and services now but pay for them later (plus interest). Credit includes loans, mortgages, and credit cards.

## Why Is It Important?

People with good credit:

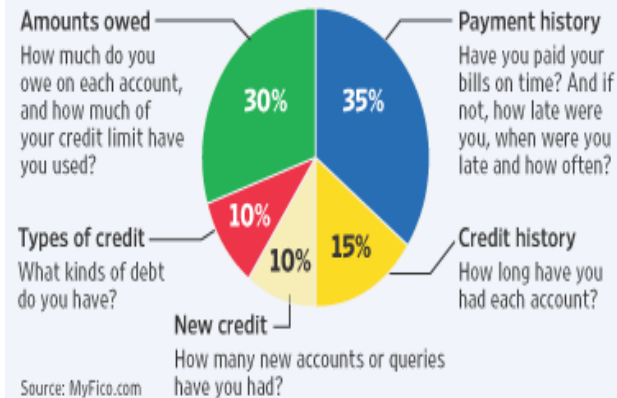
- Have an easier time getting approved for loans or credit cards
- Get better interest rates and terms
- May have an easier time getting approved to rent or buy an apartment or house
- Are preferred by some employers, particularly for jobs that require you to handle money

If you have bad credit, your debt costs you more in the long run!



*This graph shows how your credit score may impact your finances by increasing the interest rate you pay on a home mortgage loan. FICO scores are higher as you move right along the bottom of the graph. As those credit scores get better, the mortgage interest rate declines.*

## Factors included in your FICO credit score:



## How Do I Know If My Credit Is Good Or Bad?

Your credit is evaluated by credit bureaus. There are three main credit bureaus in the United States: Experian, TransUnion, and Equifax.

If you have ever had a credit account or loan, you have a credit history. The credit bureaus keep records of your credit history, which they use to determine your FICO score. The graph above shows you what affects your FICO score.

You are entitled to one free credit report per year. Your credit report does not tell you your credit score, but it does show you what your credit history looks like.

If you are trying to build good credit, it's important to pay attention to your credit history. Sometimes there are mistakes on your credit history that could hurt your score. For example, your credit history might list an open account that you thought you had closed, or it might show a late payment when you can prove you paid on time. You can work with the credit bureaus to fix these mistakes and improve your score.

## TERMS TO KNOW

**Good credit:** If you pay bills on time and don't miss payments, you have good credit.

**Bad credit:** If you have a history of making late payments, if you have ever filed for bankruptcy, or if you have had property repossessed because you haven't made your payments, you have bad credit.

**Credit Bureaus:** The three organizations that help lenders evaluate people's credit

**FICO Score:** A score that represents your credit rating. It goes from 300 to 850; the higher the score, the better your credit! FICO stands for Fair Isaac Corporation.