

MONEY SMART FOR A HEAD START

Know How Credit Can Help or Hurt Your Finances

Good credit, bad credit, or no credit? Using credit wisely allows you to pay off big expenses over time without becoming buried in debt. Having good credit can help when applying for a loan, apartment, job, or car insurance. The better your credit, the less you pay on loan interest. Almost all of us use credit at some point in our lives.



Using Credit to Your Advantage

A good credit history makes it easier to get a loan on an expensive big item, like a home or car. To get or keep good credit, you should:

- Pay your bills on time.
- Pay your credit card balance by the statement due date each month. If you can't pay the whole balance, try to pay more than the minimum payment.
- If your card is lost or stolen, report it to the credit card company right away. Most credit cards limit your loss to \$50 or less.
- Shop for a credit card or loan to build credit. Ask about fees and be sure they report to one of the credit reporting bureaus.
- If you have no credit history or past credit trouble, think about getting a secured credit card that reports to a credit reporting bureau. Secured credit cards require a deposit that becomes the amount you can use. Example: You put \$500 cash in the account, and you can charge up to \$500.

Should I Be Nervous About Using Credit?

Credit can be very useful but it also can bring problems. Some problems with credit are:

- It can be easier to overspend.
- You could lose track of what you owe or miss payments.
- You could pay a lot in interest and fees, which means you would pay more for the things you buy.
- If your income drops, you might not have enough money to afford your payments.

When you get something now that you pay for later, that's credit. Examples include a loan for a car, home, attending college, or items and services, like a doctor's bill, purchased with a credit card. Understanding credit helps you to build a good credit history and avoid pitfalls.



Know the Difference: Credit History, Credit Report, Credit Score

- Your credit history is how you have used credit in the past, including loans you've received and how you've paid them.
- There are 3 main bureaus that compile this information into credit reports (Equifax, Experian, and Transunion). When you apply for a loan, the lender checks out your reports to see if you qualify for a loan and what your interest rate will be.
- Your credit score is a number calculated using a complex formula based on the information in the reports. Lenders use different types of credit scores, such as FICO or VantageScore.

The Path to a Good Credit Score

- Make monthly payments before the due date.
- If you miss a payment, pay it within 30 days of the missed due date.
- If you have a credit card, use less than 30% of your credit limit. For example, if you have a \$100 credit limit, charge less than \$30 to your card each month.
- Have a mix of different types of credit like a car loan and a credit card.
- Have a long credit history by establishing credit now and keeping accounts in good standing open.

Your Free Credit Report

Federal law lets you order a FREE credit report from each of the 3 credit reporting bureaus as often as once per week. The website annualcreditreport.com is the website you should use to order your report. Other sites may ask for your credit card information and sign you up for costly credit monitoring, so don't enter a credit card number if asked for it. The credit bureaus must provide a free credit report, but you should expect to pay a fee if you want to get your credit score from that bureau.

If you ever find a mistake on your credit report, contact the credit bureau and explain the issue. By law, they have 30 days to respond and must remove wrong information.

You can order your free report from the 3 credit bureaus in the following ways:

- Order online at: www.annualcreditreport.com
- Call 1-877-322-8228
- Print a form to mail in at: www.annualcreditreport.com/gettingReports.action

To \$um it up

- Credit is a tool. It can be very helpful or harmful depending on how you use it.
- Get your free credit report from annualcreditreport.com to know your history.
- Smart use of credit can help you save money when you buy items like cars and homes.

Want to Learn More?

- Visit our website for more financial education resources. <https://finances.extension.wisc.edu>
- Contact your local Extension Educator: <https://counties.extension.wisc.edu>
- For help with balancing your monthly spending plan, contact the nonprofit National Foundation for Credit Counseling (NFCC) at <https://www.nfcc.org> or 800.388.2227.