



# UNDERSTANDING CREDIT

## Credit Can Be Both Good and Bad

Credit can be a valuable part of your long-term financial plan. It can help you make large purchases that would be difficult to pay for with cash, like a new vehicle, a home, or a college education. However, credit can also be dangerous if misused. It can cost you a lot of money, increase your stress, and even damage your career if you can't get or keep a security clearance as a result of a poor credit reputation. Understand how credit works and make wise decisions with these tips.

### Create Healthy Credit Habits

Boost your overall financial well-being by using credit responsibly. Practice the following healthy credit habits to improve your credit reputation:



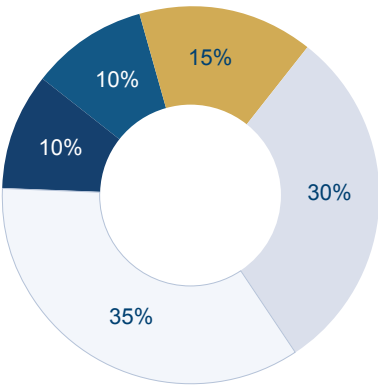
- Create and follow a spending plan, so you don't overspend and take on extra debt.
- Pay bills on time. Do not skip payments.
- Strive to fully pay off your credit cards each month. If you have to carry a balance, keep it as low as possible.
- Do not apply for credit you do not need.
- Keep credit card and loan information in a safe, secure place to reduce the risk of identity theft.
- Keep receipts and compare charges when your statements arrive. Contact your bank, credit card or finance company immediately if there is a discrepancy.

### Understand Your Credit Reputation (Credit Report)

Your credit report is a record of your payment history with creditors. Lenders, employers, landlords, insurers and other businesses often evaluate this report to determine if you are dependable and to make decisions about whether or not to lend you money. Your credit report shows the following:



- How much credit you are using
- How well you pay your debts
- Who is inquiring about your credit
- Information on bankruptcies



- Payment History
- Amounts Owed
- Length of Credit History
- Types of Credit Used
- New Credit

## Understand Your Credit Score

Credit scores may range from 300 to 850 depending on the credit scoring model. Most lenders consider people with scores above 670 to be good credit risks. Scores below 580 may indicate credit problems.

The FICO Score is one of the most widely used credit score models and is considered by lenders to be the industry standard for determining how likely a person is to repay a debt. The chart on the left indicates the five key components of a FICO credit score.

Payment history and amounts owed are responsible for approximately 65% of your credit score, so be sure to make payments on time and keep debt levels low.

Be sure to exercise good credit habits, so you can maintain the highest possible score.

The three nationwide consumer reporting agencies, Equifax, Experian, and TransUnion offer the following resources:

- A free annual copy of your credit report via the website [www.annualcreditreport.com](http://www.annualcreditreport.com)
- Free credit monitoring for eligible Service members