

# Protecting Your Credit



## Objective

In this lesson, you will

## Having Credit



**Credit:** an arrangement to \_\_\_\_\_ or use now and \_\_\_\_\_ later.

- It is important to know how to improve, increase, and \_\_\_\_\_ your credit.

Advantages of Credit	Disadvantages of Credit
<ul style="list-style-type: none"> <li>• _____ things without actually having the cash</li> <li>• maintain a _____ of your purchases</li> <li>• consolidate your _____ into a single payment</li> </ul>	<ul style="list-style-type: none"> <li>• pay _____ than the _____ of the items if interest or fees are added to the cost</li> <li>• lose _____ of how much you've spent, which can lead to financial _____.</li> <li>• indulge in impulse _____ and overspending</li> </ul>

## Determining Creditworthiness

The three Cs of credit help establish an individual's creditworthiness or the ability to repay debt.

Three Cs of Credit		
Character	Capacity	Capital
Reliability and willingness to _____ a loan. Considered doubtful when: ✓ bad credit history ✓ _____ ✓ failed business or family obligations	Financial status and ability to repay the debt from _____ income. → the _____ the total income → the _____ the amount of credit	The total _____ of the borrower (savings, investments, valuables, and _____). → These assets could be used to _____ debt if income should become unavailable.



Ways to establish credit:


- Open a money checking account.
- Apply for and use credit \_\_\_\_\_ after 18 years age.
- Make sure to pay the credit card \_\_\_\_\_ on time.

## Determining Credit Score

Analysts use the following data about past financial behavior to establish your credit scores:

- |   |   |
|---|---|
| ✓ Timely _____  | ✓ The length of _____ at your current residence |
| ✓ How long you've had _____                                       | ✓ Damaging _____ information such as bankruptcy |
| ✓ Amount of credit you've used compared to amount of _____ credit |   |

FICO (Fair Isaac Corporation): credit score model.

 <b>Five factors that contribute to a FICO score:</b>		
	35%	<ul style="list-style-type: none"> <li>• The number of late payments, amount of debt, and delay in repaying loans</li> </ul>
	30%	<ul style="list-style-type: none"> <li>• Your credit utilization ratio is your debt-to-credit ratio.</li> <li>• Best to use less than 30% of your available credit.</li> </ul>
Length of credit history		<ul style="list-style-type: none"> <li>• A longer credit history will increase your score.</li> <li>• Avoid an inactive on your report by using at least once every 6 months.</li> </ul>
	10%	<ul style="list-style-type: none"> <li>• A new credit account appears as a bigger risk and lowers score.</li> </ul>
Types of credit being used		<ul style="list-style-type: none"> <li>• A mixed of credit: credit card, car loan, and mortgage is advisable.</li> <li>• A history of revolving accounts, such as credit cards, helps to increase scores.</li> </ul>

FICO score range: 350 - \_\_\_\_\_.

- 350 = best worst creditworthiness
- 800 = best worst creditworthiness
- Most people have a score between \_\_\_\_\_ and \_\_\_\_\_.

Increase a low credit score over time by:

- pay bills \_\_\_\_\_
- reduce \_\_\_\_\_ - \_\_\_\_\_ balances

# Getting Credit Reports

Three major credit reporting agencies (CRAs) that provide trustworthy credit reports:



- *Equifax*
- 
- *TransUnion*

The credit bureaus: gather, \_\_\_\_\_, and supply credit reports to \_\_\_\_\_, businesses, and \_\_\_\_\_ who need to check your financial history.

## Summary

What actions can you take to help build good credit? What actions should you avoid?