

Understanding Credit

Credit is your reputation for paying your debts on-time. The better your credit rating is the more willing companies are to lend you money or lower your interest rates and fees. Having a poor credit rating can be difficult to overcome. It can take many, many years to restore it.

Creditors assess whether or not you are a good credit risk by looking at your credit history. Lenders will view your bill paying history, number and types of accounts, late payments, collections and outstanding debt. Your credit history plays a big part in your future, it is checked whenever you want to rent an apartment, purchase a car or apply for certain types of employment.

Students and young borrower's credit may be referred to as a "thin file". A thin file is jargon for someone without a long credit history. It is especially important for these borrowers to be concerned about not doing anything to hurt their credit scores.

A credit score is determined by assigning points. Your credit score is called a "FICO" score. Your FICO score is used by lenders to evaluate your credit risk.

FICO scores are based on five main categories and each category is assigned a percentage. The categories are as follows:

1. Payment history - 35%
2. Amount you owe - 30%
3. Length of credit history – 15%
4. New credit – 10%
5. Types of credit used – 10%

You can obtain one free copy of your credit report every 12 months. There are three major reporting agencies Experian, Transunion and Equifax. They each may use a different method of scoring, so it is important to see all three reports. To receive your free credit reports go to www.annualcreditreport.com.

How to get and keep good credit

1. Don't spend more than you can afford.
2. Pay your bills on time.
3. Keep your balances low and manage your debt responsibly.
4. If you are having difficulty making your payments contact your lender.
5. Pay off debt instead of moving it around.
6. Don't close unused credit cards – they reflect length of credit card history.
7. Understand the terms and conditions of your credit cards.
8. Remember that raising your score takes time.
9. Monitor your credit reports annually.
10. Take precautions to avoid identity theft.

Budgeting

Budgeting is easy. It can be very beneficial since you will be on your own soon and will need to manage your money.

Set up a monthly budget. Determine how much is coming in (wages). Then think about how much you spend and what you spend it on in a typical month. Break in up into categories such as, food, rent, utilities, gas, clothes and student loans. Estimate an amount for each category. Subtract your expenses from the amount you bring in – any money left over is savings or can be carried over to the next month.

My Monthly Budget

Income		
	Wage	3,500.00
Expenses		
	Rent	500.00
	Food	450.00
	Utilities	350.00
	Insurance	200.00
	Car Payment	350.00
	Gas	400.00
	Student Loans	350.00
	Clothes	200.00
	Entertainment	150.00
Total Expenses		2,950.00
Savings		550.00

Ways to Control spending

- Plan ahead for occasional unexpected expenses; be sure to have enough savings set aside.
- Control your spending. After determining what you need, look at your budget to see if you have allowed enough funds to pay for it with cash.
- Charging things to your credit card is not a way to control your spending, unless you can pay off the balance each month. Otherwise you will be paying interest that will be added.
- Remember to stick to your budget, avoid impulse purchases.