



Financial Education Resources

How to Establish and Maintain Good Credit

Your credit history is a list of all the pieces of your financial life. It includes every credit card account you've opened and any other loans you've taken out. It also includes your debt repayment history.

Many factors can affect your credit score, including whether you've paid on time or late, been foreclosed upon or filed for bankruptcy. If a court has ordered you to repay a loan or your debt has been deemed uncollectible—these, too, affect your score. All of this information stays on your credit history.

Lenders look at your credit history to assess your ability to pay back their money. If you are having money problems, you represent greater risk to a lender.

The basic principle with credit is this: use credit wisely and spend within your means.

Establishing Credit

If you don't have credit (or much credit), the key is to start small. One credit card or small loan can get the ball rolling. But make sure your lender reports your on-time payments to one of the three credit bureaus— ExperianSM (experian.com), Equifax (equifax.com) or TransUnion® (transunion.com)—and preferably to all three.

If your on-time payments don't get reported, you're accumulating debt but not building credit. Only credit accounts that report your borrowing and repayment activity will count toward your credit history. Here are some tips to help you establish a credit good history:

- When establishing credit, pay off your charges in full at the end of the month. When you get a card, always pay off the balance in full when the statement arrives. Paying off your balance in full shows the card company that you're fiscally responsible. You're using credit as it was intended: as a short-term loan.
- Pay on time. One of the most important steps in building and maintaining a solid credit history is to pay all of your bills on time each month. By paying on time, you're showing the lender or creditor that you've got enough cash flow to cover your expenses. If you pay late and the creditor reports your late payment to the credit bureaus, it may damage your credit history, and lower your credit score.



- Keep your total charges well within your credit limit. If you want to boost your credit history and credit score, you'll want to keep your total monthly charges well within your credit limit. Why? In calculating your credit score, you'll take a hit if your balance is above that limit because it signals to creditors that you may be having financial difficulties and thus are a riskier borrower.
- Regularly read your credit report. One way to building a positive credit history is to make sure you know what information is being reported. Errors and negative information can damage your credit history and your credit score, so you'll want to regularly check your credit report to see what's there.
- Understand what debit cards can do for you. While they look like credit cards, debit cards actually function more like a checkbook. They provide direct access to the cash in your bank account. So you can pay for items and services with a debit card instead of writing a check. What debit cards don't do is help you build your credit history. That's because you're not using credit to buy these items—you're using something that's treated like cash. Because you're using a cash substitute instead of credit, your debit card activity isn't reported to the credit bureaus and won't help you establish good credit.
- Consider getting a secured credit card. A secured credit card is tied to an account. You deposit a certain amount of money into the account and then you can charge up to that amount. If you default on your payment, the bank can tap into the account to get repaid. After six to 12 months of on-time payments, you may feel you're ready to graduate to a regular credit card or a store card. However, resist the urge to open too many store card accounts to take advantage of discounts. Every time you open one, it results in a credit report inquiry, which may affect your score.
- Ask for a credit line increase. After you've had your first credit card for a while (six months to a year), call the issuer and ask to increase your credit limit. The idea is to raise the credit limit on the card, not your debt load. If you're carrying a balance, raising your limit will help keep your debt-to-credit-limit ratio low. That's an important factor when calculating a credit score.
- Focus on what you want. Your credit history becomes critical when it's time to make those big purchases, like a home or a car. At that point, a one percent difference in the interest on a loan will either cost you or save you thousands of dollars over the life of the loan.

By keeping your eye on the goal-establishing and maintaining a good credit history-you'll be able to borrow that money when you want it, at the most favorable terms and conditions being offered.