



CREDIT

Understanding the Basics

Credit as a Financial Tool

What is a Credit Score?

A credit score is a 3 digit number calculated by a complex equation which factors in your financial history. It is **used to assess your risk as a loan recipient.**

How is it calculated?



Payment History (35%) - Have you paid your bills on time? If not, how late were you, and how often?

Amounts Owed/Credit Limit Use (30%) - How much do you owe on each debt? How much of your credit limit have you used?

Length of Credit History (15%) – How long have you had credit/credit accounts?

New Credit/ Recent Behaviors (10%)- How many new credit requests have you made? How many reports have been pulled on you?

Credit Mix (10%) – What types of credit/debt do you have? Are you diversified?

What does the score mean?

800+ (Exceptional)

- Lenders view you as an exceptional borrower

740-799 (Good)

- Lenders view you as a very dependable borrower

670-739 (Fair)

- Most lenders consider this a good score, and will approve a loan.

580-669 (Poor)

- Some lenders will approve loans with this score

570 or less (Bad)

- Lenders view you as a very risky loan recipient

How does it affect me?

Not only does your credit score effect weather or not you may be approved for a loan, it also effects the terms of your loan. Lower scores may lead to a higher interest rate or lower loan amount. Additionally, poor credit can may hinder your ability to access certain housing or employment opportunities. Reversely, good credit may open doors to additional loan products, lower interest rates, and larger loan amounts.

The Rules to Managing a Credit Score

Rule #1: Establish a Credit Report

You need a credit history to get new credit, so if you don't already have one establish an account. A good option is to apply for a secured card from your bank or credit union.

Rule #2: Always pay as agreed

Delinquency, or being late on payments, will negatively impact your score. Make sure to pay all bills on time.

Rule #3: Keep revolving balances under 30% of your credit limit.

Manage the urge to use all of your credit, and only use a small portion of what is available to you. This will also help you make timely payments.

Rule #4: Use caution when closing accounts

Closing old accounts negatively impacts your score. Instead, pay off a card and discontinue use. A positive, or fully paid open account is good for your score.

Rule #5: Apply for new credit judiciously. Recent credit inquiries can reflect poorly on your score because they can indicate new unreported debt, or suggest cash flow issues.

Rule #6: Demonstrate Stability

Lenders look at factors beyond your credit score to determine credit-worthiness. Keep your finances in check, stable employment, and strong assets.

Rule #7: Have a plan

Plan your spending so you never spend more than what you can repay. Have an emergency fund. Check your credit report yearly.



1301 N 2nd St. Phila PA 19122
 PHONE: 267.236.7000
 EMAIL: finanta@finanta.org
 WEB: www.finanta.org