

Establishing a Good Credit Reputation

Do you plan to buy a car one day? Or rent an apartment? If so, you'll need a good credit reputation.

- You establish a good credit reputation by making purchases through a bank, a credit card company, or another lender.
- The lender looks at your past payment history and other factors to decide whether you're likely to repay what you borrow.
- With a good credit reputation the lender is more likely to give you the money you need – and charge you less interest when you pay it back.

How do I establish a good credit reputation?

You can establish credit in 3 ways:

1. Start with small purchases that you can pay off right away. Try asking a local department store or bank for credit.
2. Apply for a secured credit card. A secured credit card uses your savings account as security for your line of credit, which reduces the risk of lending you money.
3. Get a cosigner. In special situations, such as applying for a student loan, you may ask a parent or family with a good credit history to cosign a loan application for you.

What's a Credit Score?

A credit score is a three digit number that represents your credit history and how likely you are to pay back your debts. It helps lenders measure your credit reputation. The higher the score, the better your reputation.

1. Payment History: Do you make your payments on time?
2. Amounts owed: How much is owed on your accounts?
3. Length of Credit History: How long have you had credit?
4. New Credit: How long has it been since you've opened a new account?
5. Credit Mix: What kinds of credit are you using (installment & revolving)?

How do I protect my credit reputation?

1. Make a budget and stick to it. Credit should not be used to live above your means.
2. Pay your bills on time. Late payments make you a higher risk in the eyes of lenders.
3. Keep credit card balances low. Keeping your balances low shows lenders that you aren't tempted to charge more than you can pay.
4. Show lenders you're reliable in other ways. Some lenders consider your length of employment, length of residence, and how much you have in savings before giving you credit.