GOOD CREDIT
CAN BE A BATTLE

Using credit is spending future money. Good reasons for using credit are establishing a good rating, planning for emergencies, making a record of a purchase, or holding a reservation. But remember that poor use can damage your credit rating, creates a higher risk for overspending, and is an expensive way to borrow money if the interest rate is high.

Only use credit when you are sure you can pay the charges at the end of the billing cycle, but, if you cannot, always pay more than the minimum. Pay on time and do not skip payments, even if the creditor offers. Track your charges so you do not exceed your limit and so you can watch for errors or fraud. Sign the back of the card and write "please see ID," do not leave your cards lying around, and do not have more cards than you can manage. If you close an account, cut up the card. Keep a list of all cards, account numbers, and phone numbers separate from the cards themselves, and report lost or stolen cards promptly.

Credit reporting agencies Equifax, TransUnion, and Experian, are private, for-profit companies that collect information about your credit and compile it into a report. By federal law, you are allowed one free report per year from each credit bureau. To request your credit report, go to the Annual Credit Report website at annualcreditreport.com. Beware of scam sites that are trying to steal your information. Your credit report will contain credit information but not your credit score.

Your credit score is calculated using information from your credit report. The Fair Isaac Company calculates the most common credit score, FICO. The higher, the better! Over 800 is excellent, 740-799 is very good, 670-739 is good, 580-669 is not good, and 579 or lower is considered a poor credit score.

Credit scores consider payment history (35%), amounts owed (30%), length of credit history (15%), new credit (10%), and types of credit used (10%).

Payment history includes late payments and the age of negative information. The amounts owed portion includes something called a debt utilization ratio, which is the amounts owed relative to your credit line. This is across all credit lines and is best kept below a 30% usage. For length of credit history, the score includes the average age of accounts on your report. New credit factors in inquiries in the last twelve months. Types of credit analyzes the types of loans you have.

Decisions you make with your cards can affect your credit score. Canceling a card causes a short-term reduction because it reduces your credit history and decreases available credit. Increasing your credit limit without increasing the balance may increase your score because you have more credit available. With proper management, you can establish and maintain a healthy credit score, which can make big purchases like cars and homes easier to make. Maintaining good credit requires ongoing attention to your spending, payments, and limits and can be a constant battle between impulsive, expensive purchases and being a responsible consumer.

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