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Using Credit Wisely

Good credit, bad credit, or no credit? Using credit wisely allows you to pay off big expenses over time without becoming buried in debt. Having good credit can help when applying for a loan, apartment, job, or car insurance. The better your credit, the less you pay on loan interest. Almost all of us use credit at some point in our lives.

Should I be nervous about using credit?

Although credit can be very useful, it also has disadvantages.

- It's easier to **overspend** and buy on impulse.
- You could **lose track** of your total debt or miss payments.
- There is a cost to spend money you don't have. Interest and fees mean you **pay more** for the things you buy.
- If your **income drops**, you might not have enough money to afford your payments.

When you get something now that you pay for later, that's credit. Examples include a loan for a car, home, or education, a doctor's bill, or items purchased with a credit card. Understanding credit helps you to build good credit and avoid pitfalls. You can have a good credit history when you limit your credit use to things that you can afford.

Use Credit to Your Advantage

A good credit history makes it easier to get a loan on a big item, like a home or car. To get or keep good credit, follow these rules:

- Pay all of your bills on time.
- Pay off the credit card balance by the statement due date. If you can't pay the whole balance, try to pay a little more than the minimum payment.
- If your credit card is lost or stolen, most credit cards limit your loss to \$50 or less. (Getting money back from a lost *debit* or *prepaid* card depends on the card.)
- Shopping for a credit card or loan to build credit? Ask about fees and be sure they report to one of the credit reporting bureaus.
- If you have no credit history or past credit trouble, consider a secured credit card that reports to a credit reporting bureau. It requires a deposit that becomes the amount you can use. Example: put \$500 cash in the account, and you can charge up to \$500.
- If you find a mistake on your credit report, write the credit bureau and explain the issue. By law, they have 30 days to respond and must remove wrong information.

Know the Difference: Credit History, Credit Report, & Credit Score

- Your *credit history* is your previous use of credit, including loans you've received and how you've paid them.
- There are 3 main bureaus that compile this information into *credit reports* (Equifax, Experian, and Transunion). When you apply for a loan, the lender checks out your reports to see if you qualify for a loan and what your interest rate will be.
- Your *credit score* is a number calculated using a complex (and secret) formula based on the information in the reports. Lenders use different types of credit scores, such as FICO or Vantage.

The path to a good credit score

- Get payments in before they are due.
- If you miss a payment, get it in within 30 days of the missed due date.
- If you have a credit card, use less than half of your credit limit.
- Have a mix of different types of credit like a car loan and a credit card.
- Have a long credit history by establishing credit now and keeping accounts open, even if you no longer use the accounts.

For More Information...

Contact your local UW-Extension Family Living Educator for more financial education resources. Go to www.uwex.edu/ces/cty/ to find your County office.

For help with balancing your monthly spending plan, contact a non-profit Certified Consumer Credit Counselor online at www.debtadvice.org or by calling 800.388.2227.

Your free credit report

It's important to check your credit report for mistakes at least once a year since so much depends on good credit. Federal law lets you order a FREE credit report from each of the 3 credit reporting bureaus every 12 months. The website annualcreditreport.com is the **only** truly free service. Other sites may ask for your credit card and sign you up for costly credit monitoring, so don't enter a credit card number if asked for it. The credit bureaus must provide a free credit report, but expect to pay a fee if you want to get your credit score from that bureau.

You can order your free report from the 3 credit bureaus in the following ways:

- Order online at: www.annualcreditreport.com
- Call 1-877-322-8228
- Print a form to mail in at: <https://www.annualcreditreport.com/gettingReports.action>

For help understanding your credit report and score, visit:

<http://fyi.uwex.edu/creditreport>

To \$um It Up:

\$ Credit is a tool, and like any tool it can be very helpful, but harmful if not used in the right way.

\$ Get your *real* free credit report from annualcreditreport.com to know your history.

\$ Smart use of credit in the short run can help you get—and save—on those big ticket items in the long run.

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