



# Understanding Credit

Credit is the ability to borrow money with the agreement that you will pay the money back at a future date. It is a way of life in our society, but it can be a source of financial problems if not used appropriately. Student loans, credit cards, home loans and car loans are all examples of credit.

Having good credit will allow you to get a loan at the lowest rate possible, saving thousands of dollars in the long-run. For example, if you have excellent credit, you can obtain a mortgage loan for the best rate available, providing you with a lower overall loan amount over the life of the loan, plus lower monthly payments.

## Credit History Determines Your Character

Additionally, having a strong credit history will allow you to have the things you need as well as a few things you may want throughout your lifetime. In many instances, employers will look at your credit history to determine your character and integrity. If you want to obtain insurance, most representatives will check your credit history as well to determine how you will do when making payments on your policy.

## How Do You Build Your Credit?

But, many young people do not have credit coming out of high school or college, so where do you start? Let's take a look at how to build credit if you do not have any at this time:

- Open a checking account and don't bounce any checks.
- Open a savings account and make regular deposits.

- Buy something from a department store with a department store charge card and make regular payments on time.
- Pay all your bills (e.g., utilities, telephone, etc.) on time.
- Apply for a low rate credit card and make all payments on time.

## Tips for Using Credit Responsibly

It is easy to build credit, but it is a little more difficult to maintain that credit once established. You just need to be smart and control the credit you obtain so you can make monthly payments ON TIME. Here are a few tips to help you use your credit responsibly:

- Keep any credit card balances low, or try to pay them off each month. Your loan payments should be no more than 10 percent of your monthly income.
- Keep track of your credit lines so you know how much you have used and how much is available at any given time.
- Use a budget to manage your expenses; do not overspend. Remember, you will have to pay a loan back.
- Keep track of where you spend your money. You may want to save your receipts so you can compare them with your monthly statement.
- Save up over time for larger purchases instead of using credit. Save your credit for things that would be difficult to pay for with cash, such as a home or vehicle.

## Monitor Your Credit Report

Another really important step is to monitor your credit report. Every time you use your credit card or other loan in some way, your transactions become part of your credit record, or your credit report. Some consider the credit report your financial report card. It literally keeps track of how you handle credit; for example, it tracks if you pay on time, and how much money you are currently borrowing, among other things. Lenders rely on these reports to determine whether or not you will repay your debts.

## Credit Report Sample

Click here ([http://www.experian.com/credit\\_report\\_basics/pdf/samplecreditreport.pdf](http://www.experian.com/credit_report_basics/pdf/samplecreditreport.pdf)) to view the sample credit report provided by Experian.

## Credit Score

You are given an overall credit score on your credit report, or what is referred to as a FICO® (Fair Isaac Corporation) score. A median FICO score ranges from 690 to 740; this number is compiled of the following information, listed in the order of importance:

- Payment History
- Amounts Owed
- Length of Credit History
- New Credit
- Types of Credit Used

Using the FICO, along with other valuable information required by policy at a financial institution or other entity (e.g., income, employment history, amount in savings account, etc.), will help a lender determine whether or not you will be approved for a loan as well as how much you will receive. Generally, the information in your credit history will remain on your credit report for seven years; however, if you file for bankruptcy, that information will stay on your report for 10 years.

You should always be aware of what is on your credit report. It is easy to get a copy of your credit report. By federal mandate, you have the option to go to [www.annualcreditreport.com](http://www.annualcreditreport.com) to receive a free copy of your credit report each year.

## Review Your Credit Report

Take advantage of being able to review your credit report annually and report any sort of discrepancy you may see. Protecting yourself from identity theft or other type of fraud will save you money and maintain your reputation in the future. Furthermore, the law requires the credit reporting agency to make corrections if an error is found.

Your credit record truly is your financial reputation. Be sure you only take advantage of loans that are necessary and will improve your financial security.

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