

Building Better Credit



Good credit is an increasingly important part of a consumer's financial power, but good credit is no accident. It's the result of discipline and planning. Start today, and your good credit will pay off with better loan terms, lower interest rates, and greater financial opportunities in the future.

Recognize the Value of Good Credit

A good credit history increases the confidence of lenders and creditors when they loan money to you. When they see that you have paid back your loans as agreed, lenders are more likely to extend credit again. With good credit, you can borrow for major expenses, such as a home, car, or education, and you can borrow money at a lower cost — ultimately saving you money.

Understand Your Credit Score

When you apply for credit, one of the first things a lender will do is request a copy of your credit report from a credit reporting agency. Your credit report will display a history of your credit activities, along with your credit score. Your credit score is computer generated using a formula that provides a snapshot of your creditworthiness, predicting how likely you are to repay your debts. There are many formulas utilized today, but the most commonly known one is from the Fair Isaac Corporation (FICO). According to their Web site (www.myfico.com), if your credit score is determined using their formula, it will be calculated using the following factors:

- **Payment History** (35 percent) – Have your payments been made on time? Have you ever filed for bankruptcy or lost your home to foreclosure? How frequently have your bills gone to collections?
- **Amounts Owed** (30 percent) – How much do you owe to creditors and lenders?
- **Length of Credit History** (15 percent) – How long have you had credit?
- **New Credit** (10 percent) – Does your credit report indicate that you have made numerous applications for new credit and are potentially taking on too much debt? Did you recently receive multiple lines of credit in a short period of time?

- **Types of Credit Used** (10 percent) – Does your credit report show a “healthy” mix of credit types in use?

Establish and Maintain Your Good Credit

Learning how to use credit wisely can put you one step closer to purchasing a home. The credit decisions you make today will impact your financial future. But, before you can begin to use credit wisely, you will need to establish your credit. Here are a few tips to help get you started:

- **Open checking and savings accounts.** When you open a checking and savings account, try to always exceed the minimum balance, never bounce checks, and make regular deposits.
- **Use credit cards carefully.** Credit cards are convenient and easy to use, but using them recklessly can hurt your credit. If you allow your credit cards to reach high, unpaid balances, or if you only pay the minimum amount due, they can cost you hundreds or thousands of dollars in interest alone. On the other hand, if you pay them in full or on time each month, credit cards can help you build excellent credit and reap the benefits that follow.
- **Establish credit independently.** It's important for both partners in a marriage or relationship to establish their own credit to help achieve financial goals and to protect against unforeseen circumstances like death, divorce, or other life changes. Partners should regularly discuss household and personal expenditures to ensure that neither has an excessive amount of charges that cannot be repaid.
- **Honor your promise to pay.** It is essential that you honor your promise to repay loans or credit cards on time and in the amounts scheduled. Contact your lender or creditor immediately if you are experiencing difficulty making payments.

- **Know what's in your credit report.** Check your credit report at least once each year from www.annualcreditreport.com to ensure its accuracy. If you are planning a large purchase, check your credit report prior to the purchase to avoid any surprises and to allow you plenty of time to correct any errors.

Restore Your Credit

There may have been a time in your history when you experienced a financial setback resulting in credit problems. If so, there are ways to restore your credit to a more positive position:

- **Contact former creditors with whom you've had a good payment record.** They may be willing to extend you credit to help you re-establish your credit.
- **Carefully review any credit card offers you receive.** You do not want to acquire too many; usually two credit cards will suffice.
- **Avoid disreputable credit repair companies at all costs.** Those that promise a quick, easy fix could take your money and get you into more debt. Instead, contact a reputable nonprofit credit counseling organization.

Take Action to Start Improving Your Credit Today

By understanding credit and credit evaluation systems, you'll be on the right path to realizing your goals and making good decisions. Start now, and your good credit will give you a financial advantage with better loan terms, lower interest rates, and greater financial opportunities down the road, especially when you want to buy a home.

Remember that no credit score lasts forever. It changes over time, so you can improve it over time. Every time you make an on-time payment, lower a balance, or pay off debt, you add another entry to your credit report. Managing your credit well will ultimately result in a higher credit score.

For More Information

- Contact a lender, real estate professional or housing counselor to learn more about the mortgage and homebuying process.
- CreditSmart® is a free suite of educational resources to support financial capability and homeownership education. The curriculum covers important topics such as credit, money management and responsible homeownership. To learn more, visit <http://www.freddie.mac.com/CreditSmart>
- CreditSmart® Homebuyer U is a free, online consumer education course offered within the CreditSmart suite that presents key learning principles for homebuyer preparedness and education. To learn more, visit <http://www.freddie.mac.com/CreditSmart/HomebuyerU>
- Visit My Home by Freddie Mac® for information on buying a home and the mortgage process, as well as a suite of tools to help you make informed decisions. <https://myhome.freddie.mac.com/>
- To find a HUD-approved housing counseling agency near you, visit www.hud.gov or call **800-569-4287**.

Source

Content adapted from Freddie Mac's award-winning CreditSmart, a multilingual financial education curriculum designed to help consumers build and maintain better credit, make sound financial decisions, and understand the steps to sustainable homeownership.