It’s Time to Get Smart about Credit!

Credit cards can seem convenient and easier to use than cash, but there’s so much important information you should know before applying for and utilizing credit. While it might seem fairly simple, credit is becoming a crucial aspect in larger areas of our lives such as housing and employment.

Basics of Credit

First, your credit score is a very important concept to understand. Your credit score shows lenders how financially responsible you have been in the past. This allows them to determine the level of risk that comes with lending to you.

Credit scores range from 300-850, with 300 being the worst and 850 being the best.

Here is a general rule of thumb of how credit scores are judged:

- 700 - 850 = Very good/Excellent
- 680 - 699 = Good
- 620 - 679 = Average/Okay
- 580 - 619 = Low
- 500 - 579 = Poor
- 300 - 499 = Bad

Building Credit

There are several factors to take into account when trying to build your credit score. For instance, the more you consistently make payments on your balance, the higher your score will be. Other factors you should consider include:

- Making small purchases that you can pay off right away or a larger purchase that you consistently make payments on over several months.
- Watching your “utilization” ratio. This is the current amount borrowed compared to the current line of credit. Keeping the ratio between 10-30% is recommended for building good credit. For example, if you have a $200 credit limit, the amount borrowed should be between $20 – $60.
• Maintaining older credit cards and NOT closing them. By closing a credit card, it shortens your credit history. If you have a card that is paid off and left unused, start using it in specific ways, such as gas for your car or a bill. This will prevent lenders from closing the account as well.

• Maintaining credit cards with a balance and NOT closing them. Because it has a balance, but there is no apparent line of credit, the total available credit and line of credit are reported as $0 and will appear as though it is maxed out.

Building good credit will help you increase your credit score. The higher your score, the more “wins” you’ll get in life, including:

• Lower interest rates on loans
• Higher credit limits
• Freedom and less stress when applying for car loans, a home mortgage and other lines of credit

Dangers of an Easy Swipe

There is a saying that goes, “Chains of habit are too light to be felt until they are too heavy to be broken.”

Bad credit is like Kryptonite, and just as Kryptonite is Superman’s weakness, bad credit can have the same detrimental effect on your life. Missing payments, late payments, maxing out credit cards or over-exceeding your credit limits all lower and affect your credit.

Bad credit can affect areas you may not realize and is extremely detrimental to your future. If you are not cautious, it can easily get out of control. Once this happens, it can be difficult to get it back under control and you might face repercussions such as:

• Higher interest rates. If you have a low credit score, you’ll have a harder time getting good interest rates. That’s because lenders view individuals with low credit scores as high risk.

• Being denied credit. Your chances of being approved for loans and credit cards are impacted by your credit score.

• Having a hard time obtaining the essentials. Many employers, landlords, phone companies and utility services run credit checks. If you have bad credit, you may have fewer opportunities to obtain the necessities of life.

• Higher insurance premiums. Many insurance companies equate a lower credit score to more claims filed and may charge higher premiums to those with lower scores.

The results from bad credit can be stressful, but just remember, it is never too late to fix it.
Working towards a Better Score

Consider these final tips to help improve your credit score:

- Be aware of the utilization ratio. As mentioned earlier, it is recommended to keep credit utilization between 10-30%.

- Avoid maxing out credit cards. This can lead to higher interest rates, over-limit fees and is extremely difficult to reverse.

- Create a budget and keep track of your purchases. Limit your swiping by setting a budgeted amount to spend on your credit card. Pick a feasible amount that you can pay off at the end of the month.

- Create a spreadsheet or write down all purchases made on your credit cards. This can help you remain aware of the amount you are borrowing and prevent you from spending more than you can afford to pay off at the end of the month.