

Credit Basics and Best Practices

What is Credit and Why You Should Care

Your credit score is more than just a random number.

Establishing a good credit history and score can be very helpful for you and your family. Good credit makes it easier to finance major expenses, such as a home or car, and important life events such as college tuition, weddings, and so much more. However, building and maintaining good credit requires healthy habits and good financial choices.

What do you need to know about credit?

1

You are establishing credit when you obtain a loan from a lender today that you promise to pay back in the future. Using credit is one way to buy things you might not otherwise be able to buy, especially those important purchases and investments mentioned above.

Lenders are more willing to extend credit to people who are more likely to pay back the loan than those who are less likely to repay the debt. Therefore, it's important to establish a positive credit history, because in addition to allowing you to obtain loans, credit history can also be used in other instances, such as when you are setting up a new insurance policy or utility service. Many companies will evaluate your credit history to help assess your overall risk and ability to pay for their services.

2

Your **credit score** is a three-digit number that is a prediction of your credit behavior, such as how likely you are to pay a loan back on time, based on information from your credit reports. A higher score reflects less risk, which may make you more attractive to lenders. A lower score reflects more risk, which may result in being denied a loan or charged a higher interest rate¹. The most common scoring model is the FICO® score which typically ranges from 300 to 850.

Room for Improvement					Fair			Good		Excellent	
300	350	400	450	500	550	600	650	700	750	800	850

While each factor impacts your score a little differently, the primary factors that generally affect your score include¹:

- Payment history
- The amount of debt you owe
- How long you've been using credit
- New or recent credit
- Types of credit used

Your score may change as you open loan or credit card accounts, utilize those accounts, and make payments on those accounts.

3

The third fact to know about credit is that you also have a **credit report in addition to your score**. Your credit report is a statement that has information about your credit activity and current credit situation, such as loan paying history and the status of your credit accounts. It often contains personal information, like your name, address, date of birth, and social security number, as well as information about your credit accounts, including current and historical credit accounts, the credit limit or amount, the account balance, account payment history, and the name of the creditor. Your credit report may also include public records like tax liens, collections, bankruptcies, and foreclosures for as many as 7 to 10 years.

Independent credit bureaus such as Experian, TransUnion, and Equifax create and keep credit reports on file.

4

It's a good idea to check your credit report occasionally and **correct any errors as soon as possible**. You are entitled to receive a free copy of your credit report from each of the three major credit bureaus once every 12 months. Request your free credit report online from annualcreditreport.com or call (877) 322-8228. You will need to verify your identity with your name, birth date, address, and Social Security Number.

If your report contains any mistakes or inaccurate information, contact the company or lender reporting the information first. If you are unable to resolve the issue with the company or lender, you can also dispute the information with the credit bureau(s) furnishing the report. Be sure to include as much documentation as possible to support your claim.

But if you do have a negative item on your credit report that was reported correctly, there are no instant solutions! Be wary of companies who claim they can "fix" or "remove" a correctly reported negative item from your report for a fee, as creditors and furnishers are required to report accurate information. If the information is incorrect, the creditor or furnisher is required by law to remove or correct the information based on your dispute of the information reported. So, you shouldn't have to pay a third party to fix or remove items that are incorrect on your credit report.

Best practices for establishing & maintaining good credit²

The Federal Home Loan Mortgage Corporation, known as Freddie Mac, suggests the following specific behaviors to build and maintain a good credit history:

- On-time payments
- Keeping debt load manageable
- Using as little of your credit limit as possible
- Paying the entire amount due, or at least more than the minimum amount due
- Reviewing credit reports annually
- Not shopping for too much credit

If you want to improve your score, in addition to leveraging the suggestions above, Freddie Mac provides the following tips:

- Pay your credit card bill in full if you can
- Don't charge more than you can afford to pay back
- Use a small percentage of your credit limit
- Keep only a few credit cards or credit accounts open
- Pay down debts
- Open and keep credit accounts in your name to establish good credit history
- Dispute inaccuracies in your credit report

If you need to build or rebuild credit, be patient. The best practice is to review your credit regularly and manage your credit wisely over time.

SECU offers various services to our members to help them meet their financial goals. If you have any questions or want to learn more about how we can fulfill your specific needs, Member Services Support is available at (888) 732-8562, or please visit us in person at your local branch Monday through Friday, 8:30 a.m. to 5:30 p.m.

Credit Bureaus

Equifax

Report Order: (800) 685-1111 / Fraud Hotline: (888) 766-0008

[equifax.com](https://www.equifax.com)

Experian

Report Order: (888) 397-3742 / Fraud Hotline: (888) 397-3742

[experian.com](https://www.experian.com)

TransUnion

Report Order: (877) 322-8228 / Fraud Hotline: (800) 680-7289

[tuc.com](https://www.tuc.com)

¹ Visa. *Practical money guide: credit history*. (2018). Retrieved from [practicalmoneyskills.com](https://www.practicalmoneyskills.com)

² *Get smart about credit: Credit basics Q&A. My Home by Freddie Mac*. (2021, July 21). Retrieved from myhome.freddiemac.com