



# ALASKA'S SOURCE FOR COLLEGE & CAREER FUNDING & EDUCATIONAL PLANNING RESOURCES

## Understanding Credit

### Why is my credit important?

Your credit history demonstrates if you have paid your bills as agreed or whether you have a history of defaulting on debts. When you purchase goods or services without immediate payment, you create a debt. To determine the risk of you not repaying the debt, lenders review your credit history. If you have reliably repaid your debts in the past, you'll find that lenders are more willing to offer you credit at favorable rates.

Sometimes people think that no credit is the same as good credit, but that is not always the case. Establishing a positive credit history helps you qualify for lower interest rates, get approved for an apartment or mortgage, and even acquire a higher-paying job.

### How do I establish & maintain good credit?

- Develop a budget and pay all your bills on time - never ignore overdue bills
- Keep your outstanding debt as low as you can by only borrowing what you need
- Monitor your credit rating and be aware of any red flags or inaccurate data

### What is a FICO score?

A FICO score is one of the most widely used credit report tools lenders use to determine credit rating. Your FICO score is based on your payment history, current level of indebtedness, types of credit used and length of credit history, and new credit. FICO credit scores range from 300 to 850. Generally, a FICO score of 650 and above indicates that a person has a good credit history.

### How are credit scores/reports calculated?

Potential creditors use the information on your credit report to calculate your credit score. Your report includes:

- Personal information including reported employment
- Account information or trade lines
- Inquiries
- Public records information

Generally, lenders review your credit report provided by one of the three major credit reporting agencies - Equifax, Transunion, and Experian. The federal Fair Credit Reporting Act requires each of the nationwide credit reporting agencies to provide you with a free copy of your credit report, at your request, once every 12 months. Important! There's only one online authorized source for obtaining your free credit reports [www.annualcreditreport.com](http://www.annualcreditreport.com) beware of other sites that may look and sound similar but may require you to purchase other services to receive a "free" report.