

# HOW CREDIT WORKS

**A Simple Guide to Understanding Personal Credit**



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## ***WHAT CREDIT IS***

Credit is simply trust — it is a lender's way of deciding if they believe you will pay back money you borrow.

Your credit score is a number that represents how reliable you are when it comes to paying your bills and managing debt.

Lenders, banks, landlords, and even insurance companies use your credit score as a way to measure financial responsibility.

## ***WHY CREDIT MATTERS***

Credit affects many areas of everyday life:

- Renting an apartment
- Buying a car
- Getting a mortgage
- Cell phone plans
- Utilities
- Credit cards and loans
- Insurance rates
- Sometimes employment opportunities

A strong credit score makes life easier and cheaper. A low credit score makes life harder and more expensive.

## ***TYPES OF CREDIT ACCOUNTS***

There are different types of credit accounts that show up on your credit report:

- Revolving Credit — credit cards and lines of credit.
- Installment Loans — auto loans, student loans, and personal loans.
- Mortgage Loans — long-term home loans.

Having different types of credit can help build a stronger credit profile over time.

## ***HOW CREDIT SCORES ARE BUILT***

Factor	Impact
Payment History	35%
Credit Utilization	30%
Length of Credit History	15%
Credit Mix	10%
New Credit/Inquiries	10%

Payment history and utilization have the biggest impact on your score.

### ***GOOD CREDIT HABITS***

- Pay bills on time
- Keep credit card balances low
- Keep old accounts open
- Only apply for credit when needed
- Check credit reports yearly

***BAD CREDIT HABITS***

- Maxing out credit cards
- Paying late or missing payments
- Closing oldest accounts
- Applying for too much credit at once
- Ignoring collection accounts

## ***HOW CREDIT AFFECTS COSTS***

Credit impacts whether you get approved, and it affects how much you pay.

For example, two people buying the same car may pay different interest rates:

- Good credit = lower interest rate = lower total price
- Poor credit = higher interest rate = more money out of pocket

Good credit saves you money long-term.



### ***CREDIT MINDSET & AFFIRMATIONS***

- I handle credit responsibly.
- I make payments on time.
- I use credit as a tool, not a trap.
- My financial decisions support my future.
- I am building a stronger financial profile.

## ***NEXT STEPS & SUPPORT***

If you want help understanding your credit, improving your score, or building responsibly, Financial Freedom by Faith, LLC can support you.

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Financial discipline creates financial freedom.