

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.