

Credit is an essential component of financial stability and plays a significant role in your ability to rent an apartment, buy a car, get a mortgage, and even secure certain jobs. Understanding how credit works, how to build and maintain it, and what can harm it is key to making informed financial decisions.

This summary will break down the core principles of credit, providing simple and actionable steps to help you build and protect your credit score.

### What is Credit?

Credit is the ability to borrow money or access goods and services with the promise to repay later. It is based on trust between the borrower and the lender. Your creditworthiness is typically measured by your **credit score**, a numerical representation of how reliably you manage debt.

Your credit score affects many aspects of life, including:

- Renting an apartment
- Buying a car or home
- Getting a credit card
- Qualifying for loans
- Determining loan interest rates
- Even employment opportunities in some industries

### Understanding Credit Scores

Your credit score is a three-digit number ranging from 300 to 850, with higher numbers representing better creditworthiness. Here's how credit scores are generally categorized:

- **800 – 850 (Excellent):** Exceptional credit history, best loan terms and lowest interest rates.
- **740 – 799 (Very Good):** Strong credit history, likely to receive favorable terms.
- **670 – 739 (Good):** Considered a reliable borrower, most lenders approve loans.
- **580 – 669 (Fair):** Some lenders may approve, but interest rates will be higher.
- **300 – 579 (Poor):** High risk for lenders, difficulty getting loans or credit cards.

## How is Your Credit Score Calculated?

Your credit score is based on five key factors, listed in order of importance in terms of their individual impact on your credit score:

1. **Payment History** – Paying bills on time is the most significant factor in your score.
2. **Credit Utilization** – Using too much of your credit limit can negatively affect your score. Keep utilization below 30% of your available credit.
3. **Length of Credit History** – The longer your credit accounts have been open, the better.
4. **Credit Mix** – Having different types of credit (credit cards, loans, mortgages) demonstrates responsible financial management.
5. **New Credit Applications** – Applying for multiple credit lines in a short period can lower your score temporarily.

## How to Start Building Credit

If you don't have a credit history yet, here's how to start:

1. **Get a Secured Credit Card:**
  - A secured credit card requires a deposit that acts as your credit limit.
  - You can apply for a secured credit card at most major banks or credit unions, such as **Chase, Capital One, Discover, or local credit unions.**
  - Use it for small purchases and pay it off in full each month to start building credit.
2. **Apply for a Credit-Builder Loan:**
  - Credit-builder loans are small loans designed to help you build credit.
  - These loans are available at many **credit unions, online banks, and community financial institutions.**
  - With a credit-builder loan, the lender holds the loan amount in a secured account while you make monthly payments. Once fully paid, the money is released to you, and your successful payments are reported to credit bureaus.
3. **Become an Authorized User:**
  - A trusted family member or friend can add you as an authorized user on their credit card.
  - You benefit from their good payment history without being responsible for the debt.
4. **Pay Your Bills On Time:**
  - Utility bills, rent, and phone payments may not always be reported to credit bureaus, but missing payments can negatively impact your financial reputation.

## How to Continue Building and Improving Credit

Once you've started building credit, the next steps are:

1. **Keep Your Credit Utilization Low:**
  - Try to use **less than 30%** of your credit limit. Example: If your credit limit is \$1,000, keep your balance below \$300.
2. **Diversify Your Credit:**
  - Having different types of credit (credit cards, installment loans, mortgages) can improve your score.
3. **Increase Your Credit Limit:**
  - As your credit score improves, you can request a credit limit increase, which helps lower your utilization percentage.
4. **Avoid Closing Old Accounts:**
  - Keeping older credit accounts open helps maintain a longer credit history, which is beneficial for your score.
5. **Limit New Credit Applications:**
  - Too many hard inquiries in a short time can reduce your score.

## Common Mistakes That Hurt Credit

To protect your credit, avoid these common mistakes:

- **Missing Payments:** Late or missed payments negatively impact your credit score.
- **Maxing Out Credit Cards:** High balances can lower your score.
- **Closing Old Accounts:** Reduces credit history length and available credit.
- **Applying for Too Many Credit Lines:** Multiple applications in a short time can temporarily lower your score.
- **Defaulting on Loans:** Unpaid loans can severely damage your credit and take years to recover from.

## Final Thoughts

Credit is a powerful financial tool that, when used wisely, can open doors to better financial opportunities. Understanding how credit works and consistently making responsible decisions will set you up for long-term success.

By following the strategies outlined in this guide, you can establish, build, and maintain excellent credit, ensuring financial flexibility and stability for years to come.