

## *Transcript*

# **Building Credit And Keeping Yours Healthy**

There are certain things everyone buys: groceries for lunch and dinner, gas to get back and forth to work, even a toothbrush or two for the kids. But instead of paying cash or using your debit card for all these little expenses, you put them all on your credit card. Well, if you pay off your bill every month, then it's not a big deal. But what happens when all these things start adding up faster than you thought, and you start carrying a credit card balance every month?

Well, before you know it, you could be incurring interest and fees — which will add to your overall debt. And if you're not careful, you could miss a payment here and there and suddenly your financial health is at risk.

So why should you worry so much about missing a payment every now and then? Or even overextending yourself by maybe financing these things you don't actually need? Well, it's simple, really. Because credit is a big part of your financial identity. And its healthiness is defined by what's called a credit score.

Your credit score is a number, the most common being known as a FICO score, that helps evaluate how much of a risk it is to lend you money. It simply shows how responsible – or irresponsible you are with your finances. When it's good, it can help you get access to lower rates which enables you to borrow for both short-term emergencies and longer-term bigger-ticket items.

That's why slacking on your mortgage payments, car loan, most department store debt or credit card bills is not a wise move. In fact, it may damage your future ability to borrow money — So while you may still be able to get the things you need, like a home mortgage, or a car loan, it could cost you even more in the long run. And that's because you'll likely be charged a higher interest rate.

Now, bad credit can affect you in areas of your life you wouldn't even expect.

Take employers and landlords, for example. They may look at your credit score to see if you'd be a responsible employee or tenant.

Some car insurance companies may also see a direct relationship between your credit score and the likelihood of you being in an accident. And in certain states, this even means you're charged a lot more for insurance.

So how do you build a good credit score, or protect what you've already built? In general there are five things you should know about how a score is calculated using information on your credit report, some that weigh a little more heavily than others.

First and foremost is your payment history. That goes for all of your bills on your credit report — not just your credit cards. This one's a biggie because it makes up a decent portion of your overall score. Creditors want to know that you pay on time, every time, even if it's just the minimum. And consistency goes a long way, so pay your bills when they're due and never skip payments. One easy way to stay on top of things is to set up automatic payments for the fixed costs like your mortgage.

The second most important factor is how much you owe. Simply stated, it's the amount of debt you have compared to the amount of credit that's available to you. It's a good rule of thumb to keep your total debt lower than the overall credit available. The lower the better. Because if you get too close to your limit, creditors may think you're biting off more than you can chew or that you are supplementing your income with credit. So whenever possible, keep this debt-to-credit ratio as low as possible.

Third, creditors want to see that you've been managing credit for a long time. Your credit history shows how long you have been using credit, how you've handled that responsibility, and how responsible you've been. Establishing a good long history means you're an old pro at borrowing or managing money and are likely to repay what you borrow.

Next, your score may also be affected by the mix of credit types you have. A good mix will span different types of credit — from a mortgage to credit cards to installment loans like car payments, which are repaid over time — and can help you improve your overall score. This is because it proves you have experience handling a variety of account types instead of having a lot of accounts in just one area. And when it comes to balances, lower is always better for your score.

Lastly, creditors want to know what you've been up to lately. They'll look at recently opened accounts and where you're inquiring about credit. Even if you're relatively new to credit or were just thinking about borrowing, they want to see who gave you credit and when.

Also, applying for too much credit can be seen as high risk because it looks like you're desperate for loans. Take department stores for instance. Doesn't it seem like they're always offering you 20% off if you open up a credit card? Although it could save you some cash right there at the register, think about the possible long-term consequences of opening, and paying for, yet another account.

So, now that you know what makes up your credit score, it's important to check your credit reports because that's how your credit score is established in the first place. There are three national credit-reporting bureaus that you should know: Experian, TransUnion and Equifax. And you're entitled to a free credit report from each of them every year, which you can request from [AnnualCreditReport.com](http://AnnualCreditReport.com). But you should know that only the reports themselves are free and that there is a fee to get your actual credit score. Also be sure you check your reports for accuracy and take care of any problems ASAP. You don't want any skeletons in your credit closet...

In the end, the best thing you can do to keep your credit score healthy is to pay your mortgage, installment loan, most department store, and credit card bills on time. Also, be careful not to exceed account limits and make sure none of your accounts are delinquent. Getting an account turned over to a collection agency is a credit score killer that you want to avoid at all costs.

If you take these steps, you can achieve a higher, healthier credit score. And that's something that money just can't buy.