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"CREDIT 101"

WHAT IS CREDIT ?

MASS CREDIT RELIEF

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Credit 101

Credit is process of borrowing money under the condition that it is paid back at a later date. Credit is used to make purchases for products or services and allows us to live more affluent lifestyles. It also allows us to function more efficiently because we don't have to carry large amounts of cash when we travel. The most difficult part of credit isn't knowing how it works, but rather how it affects you as a consumer. Smart Credit lays out how your credit affects not only your credit score, but how it can affect you as a consumer and an employee. But Smart Credit also can help you understand what you can do to change your credit score and make your overall credit rating much better, therefore helping you to become a better consumer and credit user.

Consumers can borrow an amount of money with an agreement to pay it back. This agreement is generally called a Promissory Note. The Note obligates you to pay back the amount you owe plus any fee associated with the loan, sometimes called interest. In order to get credit, the lender measures your ability and willingness to pay by obtaining credit information, such as a credit report and a credit score. Those who lend larger amounts, such as mortgage lenders, require additional information such as income, employment data and assets. Your credit reports and scores determine the interest rate that you are charged on the loan.

Terms you should know:

Revolving Credit Accounts

A revolving account is a credit card such as a retail store card, bankcard, or gasoline card. You are given a maximum amount you can charge on the card, which is called the "credit limit." You have the option to pay these accounts in full each month or pay a minimum amount. If you don't pay the account in full each month then the amount still due "revolves" to the next month and accrues interest, hence the term "revolving account."

Installment Credit Accounts

Installment loans are accounts where you owe a fixed amount each month for a specified time frame. Examples of installment accounts are auto loans, mortgages and student loans. The monthly amount is determined by the total amount you borrowed, the interest rate and the length of time to pay. For example, a 30-year mortgage of $100,000 at 4% interest with a 20% down payment will cost you 360 equal installment payments of $686.

Open Credit Accounts

The 3rd and least common type of credit is "open" credit. Open credit requires that you pay back the balance in full each month. Charge cards are an example of open credit accounts. If you charge $1,000 in a month then you're required to pay it all back before the due date. Open accounts have their advantages. Since you're not able to revolve a balance from one month to the next it's easier to stay out of debt. And, if you're not revolving a balance then you're not paying interest. And even though most charge cards have annual fees, it's still much less expensive than paying interest each month.

Credit Availability

It's important to remember that credit is a privilege, not a right. Not everyone can get credit because not everyone has earned the privilege of having credit. Creditors are in the business of making money and the first rule of making money is to not lose money. Lenders won't want to loan you money if you can't or won't pay them back.

Credit Reporting

Credit reporting is the process whereby your loans and credit card experience are reported by your lenders to the three major credit-reporting agencies - Equifax, Experian and TransUnion. This is their way to tell other lenders if you've done a good job managing credit or if you've done a poor job managing your credit. Lenders will review your credit report prior to making a loan decision. As such, it is very important to have good credit, which results from paying your bills on time and staying out of excessive debt.