Knowing Your Score

Credit Score: Your Financial GPA

GPA is an acronym for grade point average, which represents of your overall academic performance. You probably know your GPA, or at least are familiar with the term from report cards and college applications. But did you know that your credit score is like a financial GPA?

How is my credit score like a GPA?
Just like your GPA, your credit score is a cumulative number that represents what you have done, only it exists in the world of credit instead of academics. The same way colleges use your GPA to forecast academic success, your credit score is a predictor of how likely you are to be financially responsible and repay a loan.

So, how is it calculated?

- Your credit score is calculated in this way: 35 percent is based on payment history; 30 percent is outstanding debt and how much credit is already available, even if you haven't used it; 15 percent is based on the length of time a consumer has had credit; 10 percent is based on the amount of inquiries into a report; and 10 percent is based on current types of credit.
- To start building a good credit history, open a checking or savings account. For your first credit card, consider tying the credit card to those accounts. with a low credit limit is a good option. You could also consider obtaining a small loan, such as a used car loan, and having a parent or other trusted adult with good credit co-sign the loan. That way you can piggyback on their good credit history.
- Your credit score will be a number between 300 and 850, depending on the criteria used to calculate. A credit score of 720 or above is good, and will enable you to be approved for a loan more easily and at a better interest rate.

How do I raise my credit score?

- Pay your bills in full and on time.
- Check your credit report once a year. Review for errors or inaccuracies and address any you find. Check it for free at **annualcreditreport.com**.
- Watch for warning signs of credit trouble. For example, if you're only able to pay the minimum payment, if you pay late, or if you use credit for everyday expenses, you're already in trouble. Make sure you think about what it is that you're using credit to buy.
- Stick to a spending plan. It may be difficult when you're first getting started, but a budget is the first step to financial freedom. Start by writing down what you spend for a month or two, you'll be surprised how much you spend and where, and hopefully find ways to save.

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The Credit Report: Your Financial Résumé

It's common for a company to check the references you provide when applying for a job. But did you expect them to check your credit report?

A credit report is essentially a file on you, your accounts and your payment history. Typically, the collection of data begins when you first apply for a credit card, a loan, insurance, a lease, or a job. Credit-reporting agencies—the most common type being the credit bureau—gather and sell this information.

It's important to establish and maintain good credit because:

- A credit report is a record of where you work and live, how you pay your bills and whether you've been sued, arrested or have filed for bankruptcy.
- Employers can legally look at your credit report if you sign an authorization form when you apply for the job. Employers look at your credit record to gauge your personal integrity and financial honesty. You can refuse to sign the form, but consequently, a company may assume that you have something to hide. This means your application and chance of employment there could end up in the garbage.
- Banks, insurance companies and landlords look at your credit report for similar reasons. Just as financial creditors are looking at your ability to repay debt, your landlord is trying to assess if you'll be a good tenant.

Establishing a good credit history:
The first step is to get some experience repaying money. Repaying your debt on time is the basis for a good credit rating and a positive credit report. Here's how to get started on the right track:

- Open a saving or a checking account at a bank.
- Apply for a credit card. There are many types of credit cards including bank credit cards (also called general use cards), retail store cards, gasoline or Oil Company cards (also known as private-label cards) and prepaid card options. Retail store and gas cards may be easier to obtain than bank credit cards, and they can be a good way to get started.
- Apply for a secured credit card. Some bank card issuers offer this option. A secured credit card requires some form of collateral. You may be required to maintain a savings account with a balance that equals or exceeds the credit limit on the card, at the bank that issues you a card. Details vary so check with your local bank.
- Apply for a co-signed loan. If you need a loan and don't qualify for one on your own, a co-signed loan may be the answer. In this way, a relative with an established credit rating can help you get a loan and share the responsibility. Many young people finance new or used cars with co-signed loans.