



Managing Credit

**Cornerstone Foundation's Journey to Financial Wellness
(developed by the Financial Wellness Task Force)**

JOURNEY TO FINANCIAL WELLNESS



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HOW YOU MANAGE CREDIT



WHAT YOU WILL LEARN:

1. DIFFERENCE BETWEEN CREDIT AND DEBT
2. WHAT'S IN A CREDIT REPORT
3. WHAT MAKES UP A CREDIT SCORE

WHAT IS A CREDIT REPORT?



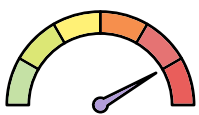
One key to financial stability is knowing and understanding your credit report. It details your credit history, including borrowing habits, outstanding debts, and payment records. Regularly reviewing it ensures accuracy, helps improve your credit score, and protects against identity theft. This knowledge empowers you to make better financial decisions and achieve greater financial stability.

What is a credit report? *Credit reports* are a compilation of your debt management history that creditors, those who lend money, use to measure your level of risk that you will repay your debts on time.

What's in a credit report? Credit reports include information on types of accounts you have held, your *payment history* on those debts, and other positive and negative debt management information.

How is a credit report used? Lenders use credit reports as part of the approval process when deciding to extend a line of credit to a potential borrower. Information in your credit report goes through a proprietary algorithm to calculate your credit score.

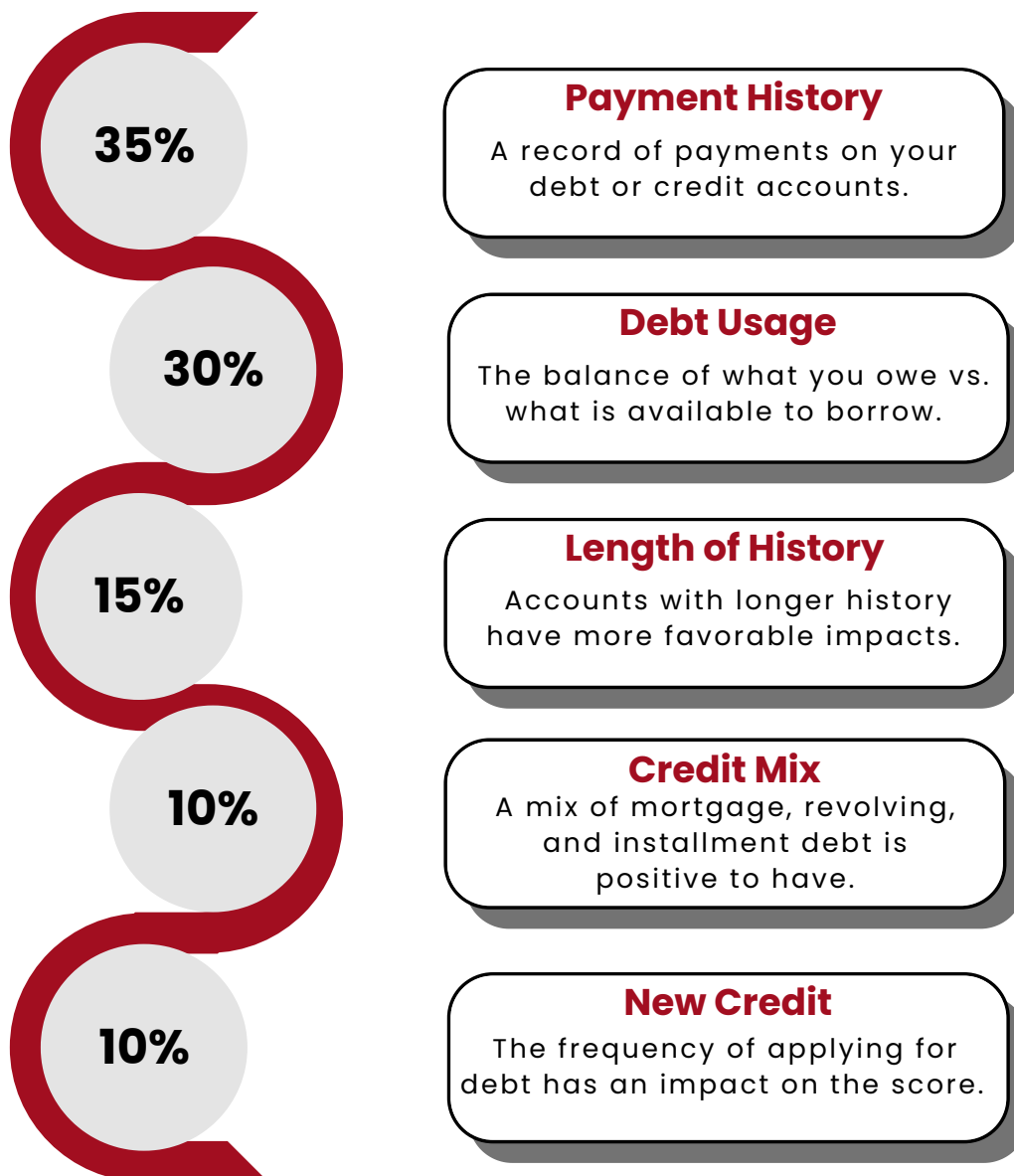
How can I check my credit report? As a consumer, you have the right to access a free copy of your credit report once weekly through annualcreditreport.com.



Cool credit fact: In 1956, Bill Fair and Earl Isaac founded the Fair Isaac Corporation (*FICO*) to develop a standardized credit scoring system, which increased demand for credit in the second half of the 20th century. This led lenders to later adopt algorithms to make the process a more efficient method establishing the FICO score.

CALCULATING CREDIT

Credit scores are based on five factors: payment history, debt usage, length of credit history, credit mix, and new credit. Understanding these factors helps you manage and improve your credit score.



IMPROVING YOUR CREDIT

PAYMENT HISTORY

To improve your credit, ensure that all debt payments are made on time consistently over an extended period. Late payments will gradually have less impact on your credit report, but it takes time. Additionally, collections negatively affect your credit score and should be paid or settled to improve it.

DEBT USAGE

Debt usage is the difference between the **amount owed** and the credit limit or original loan balance. Keeping low balances positively impacts your credit score. To improve your credit score, pay down balances, especially on credit cards, and keep them below 30% of the credit limit.

LENGTH OF HISTORY

The longer a debt remains open, the more stable you appear to creditors. Maintaining loans for an extended period positively impacts your credit score. It is advisable to keep loans open for at least one year before paying them off. Additionally, keeping credit cards open for many years can significantly improve your credit history.

CREDIT MIX

It is important to have multiple types of loans, like revolving loans (credit cards), installment loans (car or personal loans) and mortgage loans (home loans). It is advisable to have at least one open and active credit card on your credit report.

NEW CREDIT

You are considered riskier the day after opening a new loan than the day before. Consequently, you may experience a reduction in your credit score upon opening a new loan, which will gradually improve over time. It is advisable to avoid opening multiple loans within a short period, typically within one year.

BUILDING CREDIT

Your credit score is an important part of your overall financial picture. Sometimes life happens and we need a redo. Here are some tips to begin or improve your credit journey.



How to Build New Credit

1. Apply for one small loan or credit card: You must have an open and active credit line for at least 3-6 months to calculate your first score.

2. Make on-time payments: Payment history is the largest variable used to calculate your score, and payments that are delinquent for more than 29 days have a lasting negative impact.

3. Keep your balances low on credit cards: Credit limit usage is also a large factor used to calculate your score. Too much debt looks irresponsible, so make small purchases and pay credit cards off every month to avoid interest and elevated balances.

4. Extend your history: Short loan history actually has a negative impact on your credit score, so keep loans open and active for at least a year before you pay them off completely.



How to Repair Credit

1. Stop using debt temporarily: If your credit score has become an issue, stop using debt to allow your credit report time to cool off.

2. Build up your savings: It is important to have an emergency backup for your finances. Building an emergency account helps you avoid utilizing debt when life happens.

3. Get caught up: Collections and past due accounts can bring your score down quickly. Work with your creditors and collection companies to make arrangements to pay past due accounts.

4. Start small: Once you have paid off or caught up past due accounts, begin with credit again, slowly at first. Apply for one loan or credit card and make payments on-time.





CORNERSTONE FOUNDATION

*Empowering Credit Unions to Impact
Their Communities*