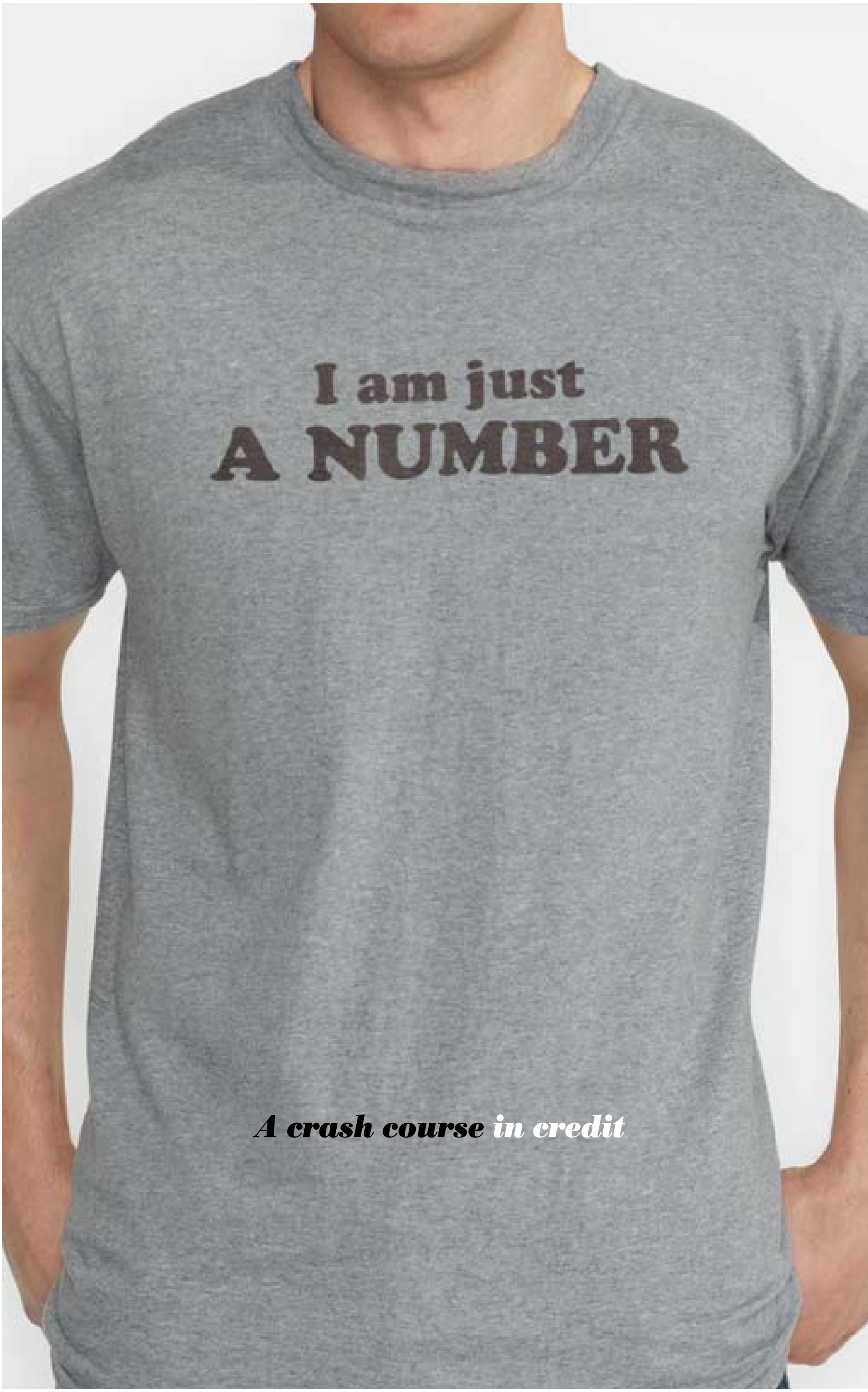

I am just
A NUMBER
A crash course in credit

Ever get the feeling that you're being watched? That someone's keeping an eye on how you handle your money? Well, you're not just imagining things.

Banks, credit card companies, insurance providers, landlords, and potential employers all have the ability to check up on how you spend your money and how you pay your bills.

How you handle money (and how you manage debt) gives banks and other businesses an indication of whether you're somebody they can trust to pay them back as they expect you to—or if you'd be a risk to their financial interests.

Why Credit Matters

With good credit, you're more likely to get the credit card, the apartment, the insurance policy or the job you want—and you'll have a much easier time borrowing money to pay for school, a car, or even one day, a house.

Credit also affects the terms and conditions offered to you when you apply for loans. Generally speaking, good credit will get you lower interest rates, which save you money in the long run. With bad credit, you'll probably get stuck with high interest rates that make even small purchases cost a lot more than they really should—if your loan application even gets approved at all.

Do the Math

How much can bad credit really affect you? Quite a bit.

For example: When you buy a new car, your credit directly impacts the terms of your car loan, such as the interest rate you're offered.

Say you take out a five-year, $25,000 car loan. With good credit, your loan may carry an interest rate of around 7%. By the time you pay off the loan, your $25,000 car actually ends up costing you a total of $29,700.

Amount Borrowed	Interest Rate	Monthly Payment	Total Amount Spent
$25,000	7%	$495	$29,700

But look what happens when you have bad credit. When you borrow the same $25,000 at a higher interest rate (for comparison's sake, let's use 12%), your monthly payments go up, along with the total amount you end up having to pay back. What's the total cost of that $25,000 car now? Over $33,360!

Amount Borrowed	Interest Rate	Monthly Payment	Total Amount Spent
$25,000	12%	$556	$33,360

That translates to an extra $61 in payments each month—every month for the next five years. Isn't there something else you'd rather do with that $61 per month (or $734 per year)? Wouldn't you prefer to spend that money on things you actually want (music, movies, entertainment or vacations, for example) instead of paying extra interest?

If you've got bad credit, you may have no choice but to have someone else cosign (promise to assume financial responsibility) for you on credit card applications, loan applications, or any other transaction that might involve a credit check.

You could have one or both of your parents act as cosigners in some cases. But at this stage of your life, do you really want your parents having a say in every one of your financial decisions? And if you can't pay your debts, do you really want to stick them with the bill?

Credit Reports vs. Credit Scores

There are two primary tools that banks, lenders, landlords, and potential employers all use to size you up: credit reports and credit scores.

And while it may feel strange to know that you're being evaluated, ranked, and approved—or rejected—based simply on a bunch of numbers, knowing how those numbers are determined can go a long way toward helping it all make sense.

Credit Reports

Your credit reports describe your financial history. They are compiled by three national credit bureaus, using information each bureau gets from banks, credit card companies, retailers, student loan providers, and other lenders who have extended credit to you.

Your credit reports contain pretty much what you'd expect them to, including account information, balances, and more importantly, information on any late or missed payments. Because the bureaus work independently, each report might look different, but on the whole the information should be the same. To get a free copy of your credit report, visit annualcreditreport.com.

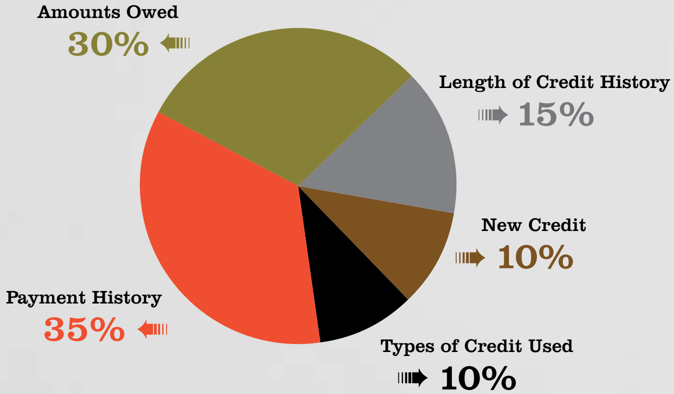
Credit Scores

Because your credit reports contain a lot of information, the credit bureaus use your report to calculate a simplified "credit score" to represent how well you've handled credit in the past. Your score, which can range from 300 (worst) to 850 (best), allows companies to quickly determine how financially responsible you are.

Because each bureau ultimately decides for itself what represents an "acceptable" score, there's no one number that will absolutely make or break you. However, scores above 650 are typically considered to be good; scores below 650 can make it more difficult or costly to obtain credit.

What Matters

The following factors combine to make up your credit score. The chart below indicates how important each factor is to your overall score.



Payment History

Making payments on time is the single most important thing you can do to build and maintain a high credit score. Late or missed payments make you look less desirable to companies that might otherwise loan you money.

Amounts Owed

Owing a lot of money can hurt your score. When you get close to your credit limit, companies may think you'll have trouble making payments. If you must keep a balance on your credit cards, try to keep it low—no more than 30%–35% of your available credit limit.

Length of Credit History

If you have a short history of using credit, companies may have a difficult time evaluating whether or not you'd be a credit risk. Using credit responsibly over a number of years helps you build a good track record.

New Credit

With all the “zero percent” introductory offers out there, along with the ability to easily transfer balances from one card to another at low interest rates, it can be tempting to accept every new offer that comes along or to roll existing balances over from one card to another.

But opening a lot of new accounts in a short period of time may lead companies to assume that you’re likely to overextend yourself—or that you’ve fallen on hard times. And every new account you open automatically lowers the average age of your accounts overall, which isn’t good for your score.

Types of Credit Used

When companies see that you can manage credit responsibly, it generally translates to a higher credit score. A good balance of credit and loans helps you out by showing that you’re able to handle multiple lines of credit.

Protect Your Credit

The choices you make today shape your credit rating for years to come, so it's vital to make sure those decisions help you rather than hurt you. For example, using credit cards responsibly and paying your bills on time shows that you know how to handle credit.

Building good credit takes time and effort, and keeping it that way takes vigilance. There are certain things you should do on a regular basis to protect your credit and keep it safe—and even if your credit score doesn't look too good right now, there are steps you can take to improve it.

Make all payments on time

Timely payments are very important to building and keeping good credit. If you're late on a payment, get current as fast as you can. And if you have a good reason for missing a payment (like a health emergency), report it to the credit bureaus so that it will show up on your report.

Don't take out more loans than necessary

It's always tempting to borrow more money than you really need. But doing that will not only increase the debt you'll have to pay back in the future (plus interest), you may also hurt your credit today.

Keep a low limit on your credit cards

Credit card companies often raise your credit limit as a "reward" for being a valuable customer. But if you don't need more credit, ask them not to raise it. Having low limits can help you to avoid racking up high balances, which can do serious damage to your credit.

Have as few credit cards as possible

Resist the urge to sign up for credit cards you don't need, no matter what kind of free gift they're offering. Having a lot of unnecessary cards will hurt your credit—especially if you sign up for multiple cards in a short period of time. You can opt out of all preapproved credit offers—and cut down on the junk mail—by calling **(888) 5-OPTOUT** or visiting **optoutprescreen.com.**

Identity Theft

What it is & what you can do

These days, protecting your credit from yourself — by making wise purchasing and debt-management decisions — is only half the battle. Because of the growing problem of identity theft, you also have to protect it from others.

"Identity theft" refers to someone getting hold of your personal information and then passing themselves off as you. They can then use your credit card numbers to make purchases, or take out new credit cards and loans, in your name.

If your identity is stolen, call any one of the three credit bureaus listed and ask that a fraud alert be placed on your credit reports.

The fraud alert tells creditors to contact you before opening any new accounts or making any changes to existing accounts. Then contact the companies involved to close any accounts that might have been tampered with or opened fraudulently. Next, file a report with the police and request a copy of the report in case any creditors require proof of the crime. If you don't act immediately, identity theft can quickly destroy your credit, and the longer you wait, the more difficult it will be to fix it.

Credit bureaus

Equifax (800) 525-6285

Experian (888) 397-3742

TransUnion (800) 680-7289

Be careful with personal information

To lessen your chances of identity theft, never share your Social Security number or other personal information with anyone who doesn't really need it. Carefully review your credit card and bank statements, looking for anything unfamiliar. And shred personal and financial documents instead of just tossing them in the trash—even those preapproved credit card offers you get in the mail.

When somebody steals your identity,

it can be incredibly difficult to set the record straight and regain your good credit. And you might not even know you have a problem until you get turned down for a loan—or until a mysterious bill appears in the mail. That's why it's so important to check your reports on annualcreditreport.com once a year.

Know Where You Stand

So what's the single biggest step you can take to understand and protect your credit? Get a free copy of your credit report from each of the three credit bureaus every year.

Looking at each report allows you to see all the information that's being used to calculate your credit score, and it also lets you verify that the information being used to determine your score is accurate.

Check yourself

It's estimated that 79% of all credit reports contain errors—and 25% have errors serious enough to result in a denial of credit.* So it's a good idea to check each report and make sure that they're all accurate. If there are mistakes anywhere, the credit bureaus can help you get them fixed.

Checking your report can also help you spot any suspicious activity on your accounts or find out if accounts you don't even know about have been opened in your name. This, obviously, can help you stay a step ahead of identity theft.

What's the score?

While getting a copy of your credit report is free, seeing your credit score isn't—the credit bureaus charge you a fee in order to let you see it. You can get a pretty good idea of where you stand just by looking at your credit report, so seeing your score isn't absolutely necessary.

annualcreditreport.com

Visit **annualcreditreport.com** to obtain your free credit reports from each of the three credit bureaus. To request your free credit reports by phone, call **(877) 322-8228** (you'll need to provide information to verify your identity before you're able to see them).

myfico.com

For a more detailed explanation of how credit ratings and credit scores are determined and how to manage your credit effectively, be sure to visit **myfico.com**. It's an invaluable resource for building your financial health.

*Source: National Association of State Public Interest Research Groups, 2004 Survey

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