How credit and your credit score can get you closer to your financial goals

Credit, used responsibly, will help you reach many of the goals you set. Building and maintaining your credit score will matter your whole life and set you on a path towards financial freedom.

Inside you will find a few examples of credit scores in action.

CreditWorthy
by OneMain Financial

Short term goals – A new car

A good credit score will help you get better deals on car loans, with lower interest rates and terms that work for you. Positive results include lower monthly payments, paying less interest over the life of the loan, and/or being able to buy a better car.

Here's a simple demonstration of how your credit score can affect buying a car. Let's say you want to buy a used car costing $12,000 on credit from a dealership. You want to pay the loan back over 48 months.

A loan with an excellent credit score/rating:

Loan amount:	$12,000
Term (length):	48 months
Interest rate charged:	3%
Monthly payments:	$265.61
Total amount:	$12,749.37
Total interest:	$749.37

A loan with a poor credit score/rating:

Loan amount:	$12,000
Term (length):	48 months
Interest rate charged:	19%
Monthly payments:	$358.80
Total amount:	$17,222.47
Total interest:	$5,222.47

With a poor credit score, a borrower may end up paying nearly $90 more each month, and $4,000+ more in interest over the life of the loan than someone with excellent credit.

Remember that a car purchase isn't the only short-term goal affected by a poor credit score. In fact, a poor credit score can make just about everything you need credit for more expensive.

Long term goals – A house purchase

A home is likely to be the biggest financial investment most people make, and securing a mortgage depends on your credit history. How much you can borrow, the amount of origination fees and other fees, and the interest rate charged will all be affected by your credit score.

People with poor credit scores may struggle to get an approval for a mortgage at all, making home ownership tougher to reach. Some might qualify for a mortgage, but they'll also have to pay higher interest along with a significantly larger down payment.

Compare and see what a difference a credit score makes:

A mortgage with an excellent credit score/rating:

Purchase price:	$200,000
Down payment (20%):	$40,000
Mortgage required:	$160,000
Term (length):	30 years
Interest rate charged:	3.92%
Monthly payments:	$757
Total cost of mortgage:	$272,520

A mortgage with a poor credit score/rating:

Purchase price:	$200,000
Down payment (30%):	$60,000
Mortgage required:	$140,000
Term (length):	30 years
Interest rate charged:	6.42%
Monthly payments:	$878
Total cost of mortgage:	$316,080

As you can see, a good credit score reduces the down payment required, the interest rate charged, the monthly payments and the overall cost of the mortgage. That's why building your credit score pays off.

Monitoring your credit reports

In the U.S., three major credit reporting agencies collect and maintain information about consumers and their debts. They hold information about your credit card payment history, loans and loan repayments and current debt, as well as other data like where you live, whether you have filed for bankruptcy, and possibly whether you have criminal convictions.

The three agencies are Equifax, Experian, and TransUnion.

While each agency may have slightly different information about you, or report that information in different ways, they all play a similar role – providing the data to the banks and lenders that they use to make decisions on loan applications.

The credit reporting agencies use the information they hold about you to calculate your credit score. Information that affects your score includes:

- Your history of repaying credit
- The amount of credit you currently hold
- The length of your credit history
- The number and frequency of credit applications you have submitted
- The types of credit you have (mortgages, car loans, payday loans, credit cards)

Occasionally the credit reporting agencies report inaccurate personal and financial information, or list fraudulent accounts that have been opened in a consumer's name. That's why it is important to regularly check your credit report with each of the three agencies. In fact, experts suggest that you check your reports at least annually. If you find errors on your credit report, each reporting agency lists the steps to take to have them corrected.

You are entitled to a free annual credit report from each of the three credit reporting agencies once a year. Go to www.annualcreditreport.com, where you can request all three agency reports at once, or one at a time.

You can also apply for your credit report directly from each of the three credit reporting agencies:
Equifax – www.equifax.com
Experian – www.experian.com
TransUnion – www.transunion.com

All three credit reporting agencies offer a mobile app, that you can use to monitor your report and score on a regular basis.