

## Lesson 8.3 - Establishing Credit

Good credit is essential to your financial future and establishing your credit is extremely important, but you should understand that it doesn't happen automatically. You can think of credit as other peoples' confidence in you and, more precisely, their opinion of your ability to repay debt. You must work hard to get your credit established and then work even harder to maintain good credit.

Remember the 3 C's of credit (character, capacity and collateral) because they will determine if others will extend credit to you and how much credit they will extend. It is up to you to establish your credit and to use it wisely so that it will be available when you need it.

After completing this lesson, you should know and understand the following:

- 1) Credit represents money available to you, but someone else determines if you have earned the right to use it.
- 2) When you use credit, you are entering into a legal agreement.
- 3) There are advantages and disadvantages to using credit.
- 4) Most people couldn't purchase new cars, homes or a host of other big-ticket items without credit.
- 5) Businesses reserve their best credit terms and rates for those who use credit wisely.
- 6) Consumer protection laws ensure everyone is treated equally and fairly in our society.
- 7) The Equal Credit Opportunity Act prohibits businesses from using race, religion, gender, age or marital status to determine who get access to credit.
- 8) The Fair Credit Reporting Act defines who is granted access to your credit history.
- 9) A credit bureau collects information relevant to your credit history and provides credit reports to businesses for a fee.
- 10) A credit bureau doesn't determine if you are extended credit.
- 11) You are entitled to 1 free credit report from each of the 3 major credit bureaus each year.
- 12) A credit score is a number from 300 to 850 indicating how likely you are to repay a debt.
- 13) A credit score is also called a FICO score.
- 14) You should establish your credit before you actually need it.
- 15) It is possible to repair damaged credit, but it is not easy to do.
- 16) You should know and understand the financial and life terms introduced or re-introduced in this lesson. A comprehensive list of the terms for this lesson can be found by clicking on [Terminology] in the Main Menu. Simply mouse over each term and review the definition of the term.

If you have questions about this lesson, feel free to review the Lesson Section Text, Interactive Examples/Exercises and Self Check questions. Additional resources are available under the Activities, Projects and Resources Buttons found at the bottom of the Lesson/Task Pane. Running the interactive Examples and Exercises with different parameters will help you gain a better understanding of how the different factors affect the output of the examples and exercises, thus helping you understand the underlying concepts.