

UNDERSTANDING CREDIT

Credit Can Be Both Good and Bad

Credit can be a valuable part of your long-term financial plan. It can help you make large purchases that would be difficult to pay for with cash, like a new vehicle, a home, or a college education. However, credit can also be dangerous if misused. It can cost you a lot of money, increase your stress, and even damage your career if you can't get or keep a security clearance as a result of a poor credit reputation. Understand how credit works and make wise decisions with these tips.

Create Healthy Credit Habits

Boost your overall financial well-being by using credit responsibly. Practice the following healthy credit habits to improve your credit reputation:



- Create and follow a spending plan, so you don't overspend and take on extra debt.
- Pay bills on time. Do not skip payments.
- Strive to fully pay off your credit cards each month. If you have to carry a balance, keep it as low as possible.
- Do not apply for credit you do not need.
- Keep credit card and loan information in a safe, secure place to reduce the risk of identity theft.
- Keep receipts and compare charges when your statements arrive. Contact your bank, credit card or finance company immediately if there is a discrepancy.

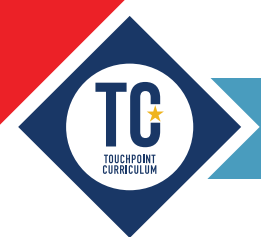
Understand Your Credit Reputation (Credit Report)

Your credit report is a record of your payment history with creditors. Lenders, employers, landlords, insurers and other businesses often evaluate this report to determine if you are dependable and to make decisions about whether or not to lend you money. Your credit report shows the following:

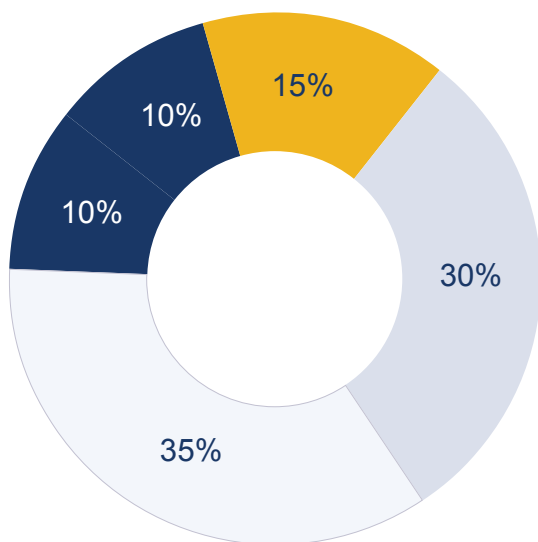


- How much credit you are using
- How well you pay your debts
- Who is inquiring about your credit
- Information on bankruptcies

A free copy of your credit report is available through each of the three nationwide consumer reporting agencies or at <https://www.annualcreditreport.com>.



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- Payment History
- Amounts Owed
- Length of Credit History
- Types of Credit Used
- New Credit

Understand Your Credit Score

Credit scores may range from 300 to 850 depending on the credit scoring model. Most lenders consider people with scores above 670 to be good credit risks. Scores below 580 may indicate credit problems.

The FICO Score is one of the most widely used credit score models and is considered by lenders to be the industry standard for determining how likely a person is to repay a debt. The chart on the left indicates the five key components of a FICO credit score.

Payment history and amounts owed are responsible for approximately 65% of your credit score, so be sure to make payments on time and keep debt levels low.

Exercise good credit habits, so you can maintain the highest possible score.

The Fair Credit Reporting Act

The 2018 Fair Credit Reporting Act (FCRA) was amended to include free electronic credit monitoring for Active Duty and Reserve members under a call or order under the provision of law. Free credit monitoring is an important change that reinforces the financial readiness initiative.

Credit Monitoring and Financial Readiness

Financial readiness is a key factor in keeping your mind clear to focus on your duties and mission in the military. The credit monitoring services offered by the three major credit bureaus can be a valuable resource and notify you about:



- Positive and negative changes to your credit score
- Who is looking at your credit report
- What is being reported on your credit report
- Potential identity theft
- New credit activities



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Eligible Service members are encouraged to sign up with all three Nationwide Consumer Reporting Agencies (NCRAs), by visiting each NCRA website, creating an account, and self-certifying Active Duty status. You can save \$120 to \$180 per year by signing up for the free service. Each NCRA provides electronic alerts when key changes occur to the credit report and offer additional features.

EQUIFAX

- Daily access to credit report
- Daily fraud alerts
- Up to \$25K in ID theft insurance



- Access to latest credit information
- Updated credit report every 30 days
- Data provided via private, secure connection



- 1-touch Credit Lock access to unlimited credit report refreshes
- Up to \$25K in ID theft insurance

Are you struggling with debt?

If debt reduction is a goal for you, there are a few strategies that can help you do it efficiently.

- **The Debt Snowball** is a debt repayment strategy that focuses on paying down your lowest balance, while making minimum payments on all other debt. Once you've paid off your lowest balance debt, concentrate additional resources to pay down the next lowest balance debt, until you become completely debt free.
- **The Debt Avalanche** works in a similar fashion, but instead of paying off the lowest balance debt, you concentrate on paying off the highest interest rate debt first, while making minimum payments on the rest. After the highest rate debt is paid off, turn your attention to the next highest rate debt.

Help with either strategy is available through the Personal Financial Managers (PFMs) at your local Health, Safety and Work-Life (HSWL) Regional Practice, or using [Debt Destroyer Tool.xlsx \(live.com\)](https://www.equifax.com/personal/military-credit-monitoring) or <https://extension.usu.edu/powerpay>. CG SUPRT Money Coaches are also available to help.

Resources:



- Equifax: <https://www.equifax.com/personal/military-credit-monitoring>
- TransUnion: <https://www.transunion.com/active-duty-military-credit-center>
- Experian: <https://www.experian.com/lp/military.html>