Hooray! My taxes are filed and I am excited to soon be free of a short term loan I obtained cash for some much-needed kitchen repairs. Since my credit rating is good, I was able to secure the loan for a very reasonable interest rate. I was fortunate to get an unsecured loan at a finance rate of 3.9% APR. Although the finance rate is really low, I still had to pay over $60 in finance fees to take care of my kitchen plumbing and floor problems.

For most people, most of what I shared in the first paragraph makes sense to them, but for others, the information may not make any sense at all. Since April is financial literacy month, I thought I would share some helpful information about financial terminology, credit and credit management. Much of the information I am sharing comes from "Know Your Credit", an Extension publication written by Valeria Edwards. You can access this publication at http://www.ksre.ksu.edu/bookstore/pubs/MF3081.pdf.

To understand the impact a credit rating has on consumers, recognizing the expectations that come with credit is important. Credit is the ability of a customer (that would be me in the example given above) to obtain services, goods, or cash (as in my case) based on the trust that it will be returned in the future. It is a tool used by millions of Americans to meet their short-term and long-term goals. According to 2012 projections made by the United State Census Bureau, 160 million Americans will have a credit card amounting to $870 billion in outstanding credit card debt. The Federal Reserve Bank of Boston stated that as of January 2010, the average American has 3.5 credit cards. . Although the national credit card debt is a 1.8% decline from 2009, this is still an area of concern because many consumers are struggling to pay credit card payments on time or pay off credit card balances.

When a consumer repays a debt on time and in full, their credit rating is impacted in a positive way. When a consumer is late or does not repay a debt, their credit rating is impacted in a negative way. Poor management of credit can result in higher costs to the consumer as well as increased stress and lost opportunities. Being aware of your financial resources and the impact credit can have on your financial security is important as you make decisions about your finances.

One resource you have is a **credit report**. America Saves defines your credit report as an explanation of your credit history. This report lists when and where you applied for credit, who the lender was, and who you still owe money to. It also shows if you've paid a debt in full and if you made your monthly payments on time. When I went to my financial institution to request the loan for kitchen repairs, they accessed my credit report to decide if I had a good credit history or a poor one. Credit card companies will access the credit reports of their applicants to determine what credit limit and interest they should build into your credit card contract. There are other places credit reports are used. When consumers apply for a home loan or make application to rent an apartment, credit reports can be used to determine eligibility. Utility companies may charge deposits based on the information they review on an applicant's credit report. Employers often check credit reports before offering employment or allowing an employee to carry a company-sponsored credit card.

Another related resource you have is a **credit score.** The Consumer Federation of America and Fair Isaac Corporation (FICO) defines your credit score as a number that helps lenders and others predict how likely you are to make your credit payments on time. This number is derived from the information on your credit report. When lenders speak of "your score", they are referring to your FICO Score, which is the most popular scoring system used in measuring consumer credit. Some lenders have their own internal scoring system, based on their identified credit criteria.

FICO scores range from 300 to 850. The higher the score, the better the consumer's credit score is. Most people score in the 600 – 700 range. From most lenders' perspective, FICO scores above 750 are excellent, scores around 700 are good, and scores around 650 are fair. Those FICO scores below 600 are considered high risk for lenders. This doesn't mean that consumers with FICO scores below 600 cannot get loans. There are some lenders that will assume the higher risk, but will charge much higher interest rates, while other lenders will deny loan applications based on scores in this range. How does your credit score impact your financial flexibility? First, be aware that scores change over time as payment histories evolve and outstanding balances are paid in full. This means that, just because you were declined for a house loan in 2010, it doesn't mean you will be declined now. The opposite can hold true as well. You may have qualified for a loan in the past that, due to your credit history, you do not qualify for today.

Credit scores are influenced by five factors. 1) Payment history describes how consistently you pay your bills by their due date. Payment history has the greatest influence on your credit score. 2) Amount owed to creditors in relation to credit available impacts your credit score. 3) Length of credit history is the amount of time you have used credit. 4) New credit is the number of recent credit inquiries and opened accounts you have had. 5) Types of credit can impact your credit report. A mixture of debts is preferred.

In next week's article, I will share more information managing credit. If you have questions, call me at 785-238-4161. Until next time, keep living resourcefully!