

## Using Credit

**What it is:** Credit is the ability to obtain goods or services before payment in which the borrower often pays a fee or interest for the privilege of borrowing. The term credit also refers to the borrowing capacity of an individual or company.

**How it works:** Credit can be a terrific tool for the consumer. It can enhance your quality of life. On the other hand, it can create serious problems for people who use it incorrectly. Obtaining credit and having good credit is important when you are considering large ticket items such as a home, car, or business. When a lender extends credit it represents the confidence a lender has in your ability to repay a loan. Credit decisions are usually based on the amount of debt you currently have and your debt payment history.

If you're a new user of credit, there are positive steps you can (and should) take as you establish credit. Work with a local lending institution to obtain a small loan or credit card and make consistent payments on a monthly basis. Even a small amount will help establish a lending history, but it is imperative to make consistent, timely payments and not miss any payments.

**Why it matters:** Using credit wisely will save you money in the long run. The interest rate for borrowing is determined by the risk of the transaction, so if you have a history of paying your bills on time and not being overextended then you will pay a lower interest rate than someone who has a history of not paying bills on time. The lower interest costs can add up to hundreds of thousands of dollars of savings during your lifetime.

**Who should care:** Used responsibly, credit can help you buy big things: phone services, education, health care services, major appliances, etc. The availability of credit is also very important in emergencies. Your credit history is your financial reputation and time is the key to building credit. It does not happen overnight. A good credit history will create a good credit score, which in turn

will open many future financial opportunities and save you money. Once you have established good credit, you will reap the benefits.

**More information:** For more information contact

- National Foundation for Credit Counseling at [www.nfcc.org](http://www.nfcc.org)
- Consumer Financial Protection Bureau at <http://www.consumerfinance.gov/>
- Iowa State University Extension and Outreach website at [www.extension.iastate.edu/humansciences/](http://www.extension.iastate.edu/humansciences/)