



Borrowing 101: An Introduction to the World of Credit

Your ability to earn “credit”—the privilege of buying something now and paying for it later—carries with it many rewards when it’s used responsibly. Learn what goes into determining your credit, the benefits you’ll enjoy, and how to manage your credit well.

The 3 C’s of Credit

There are three basic areas that lenders consider before granting you credit:

1. **Character:** How well do you honor your financial obligations, as measured by your **credit report**?
2. **Capacity:** How easy will it be for you to repay the loan, as determined largely by your income (and the amount of debt you have in relation to it)?
3. **Collateral:** Will the loan be secured by something of value, such as your home against your mortgage or title against your car, which reduces the lender’s loss if you default?

Benefits of Credit

Used wisely, credit offers many advantages. Among these include:

- The ability to enjoy a product you could not otherwise afford if you had to pay for it upfront
- The convenience and safety of not having to carry large amounts of cash
- The peace-of-mind that comes

from having emergency funds for unexpected expenses

- The ease of recordkeeping you’ll enjoy with one monthly bill for numerous purchases

Tips to Manage Your Credit Wisely

Maintaining your credit well is not rocket science. Basic tips are to:

- Pay your bills on time...pay your bills on time...pay your bills on time!
- Don’t “max out” your credit card by charging to the limit
- Pay at least the minimum on all cards, but allocate the most to the one with the highest interest rate
- Don’t succumb to impulse purchases that exceed your budget and make repayment difficult
- Check your **credit report** for errors (and to protect against identity theft)
- Save copies of your sales receipts and compare them to your monthly statement

The Impact of Bad Credit

Poor credit can result in negative consequences, such as:

- Failing to qualify for the purchase of a home, car or other “big-ticket” item
- Paying more for a loan—in the form of higher interest rates—if you do qualify
- The possible loss of a job opportunity if an employer does a credit check
- Difficulty renting an apartment or entering into other contractual arrangements

Just Starting Out?

Take a look at [Getting Credit: What You Need to Know](#), a free online publication by the Federal Trade Commission.

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