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Learning Objectives

- Define credit history and identify resources for assistance with credit issues

Credit History and Credit Reports

You begin to establish a credit history as soon as you get your first credit card or get a loan. Your credit history includes information about the number of credit cards and loans you have and how conscientious you are about paying your bills. Three companies, TransUnion, Equifax, and Experian, collect this information and use it to create a credit report, which functions as a summary of your credit history. By law, you're entitled to one free credit report each year from [Annual Credit Report](#). Although you have to pay extra for your credit score to be included with your credit report, a lot of people use this as a quick reference to gauge how good or bad someone's credit is. Different companies use slightly different ratings, but 300 or so is considered to be a low credit score, and 700–850 is considered to be high.

It's a good idea to sign up for a free credit report from the [Annual Credit Report](#), since other companies will charge to give you your credit history and score. The best thing is to keep track of your bills and pay them in a timely manner so you don't have to worry about whether your credit is good or not. Potential landlords, banks, loan companies, car dealers, and even employers will often ask for your name and social security number so that they can obtain your credit information. Every business is different, but many use credit scores to evaluate prospective customers and decide how responsible or risky they might be.

The following video shows how your credit score is determined and some rules of the road for improving your current credit rating.



[See this interactive in the course material.](#)

You can view the [transcript for “How to Build a Good Credit Score” here \(opens in new window\)](#).

Resources for Credit Issues



Credit counselors might be able to recommend budgeting and credit courses that will give you tips for managing your personal finances

Maintaining credit is a big responsibility, and sometimes it can be challenging. For example, you might have to borrow more student loans than you want because you don't have time to work while attending school, or it might be difficult to find a decent-paying job as a student or recent graduate. These are just a couple of issues that could threaten your credit. Repairing bad credit can take a long time—up to seven years—so it's important to take action as soon as you're having trouble paying bills or overspending. Different resources and options are available to help you deal with credit issues, including the following:

- **Loan consolidation:** Students may consider having multiple loans consolidated with the federal government so they have to make only one loan payment per month. While this may give you more time pay off student loan debt, it may not be the best option, since the one monthly payment can cost more and accrue a higher interest rate. Students should talk to loan company representatives and financial aid resources at their institution to discuss other payment options, such as income-based payments in which the amount you

pay each month is based on your income level.

- **Credit counselors:** Credit counselors are trained to help people develop personal budgets and to provide classes on savings and debt solutions. They may also offer debt management plans in which they work with your credit card and loan companies to arrange a deal and ask you for monthly deposits so that they can help you pay off your debts. If you are interested in a consultation from a credit counselor, you should ask family, friends, or your local government for references for reputable ones. You will also want to find counselors that do not charge customers too much for their services to avoid additional debt.
- **Debt settlement plans:** Debt collection companies will offer services to their clients that involve talking to credit card and loan companies and coming up with a plan to pay a lump sum instead of the total debt owed. Similar to finding credit counselors, you should contact local government offices to find reputable debt collection companies so you can avoid overpayments and scams.
- **Bankruptcy:** Bankruptcy is an official status that is obtained through court procedures, and it means that means you are unable to pay off your debts. People may file for Chapter 13 bankruptcy, which means they don't lose any assets and have a payment plan of three–five years to pay off their debts, or Chapter 7 bankruptcy, which means they may have to surrender assets that can be used to pay off their debts. Bankruptcy damages your credit score, and the fees for filing paperwork and hiring an attorney can be costly, so it is important to consider other financial solutions first.

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