



THE BASICS OF CREDIT WHEN STARTING OUT

WHAT IS A CREDIT SCORE?

Credit Scores are used by lenders to forecast how likely an individual is to repay a loan in a timely manner. It takes person's past borrowing history to make a future decision about their creditworthiness. In this way they are used as risk tools that allow lenders to make a determination as to assessing the reliability that an individual will repay the loan as initially agreed.

A credit score is simply certain components or factors from a person's overall credit report that are more highlighted. These factors consist of the total amount of debt a person currently has, the types of credit a person has such as mortgage, auto loan,

student loan, etc., how long the credit accounts have been in existence and timeliness of repayment. The number of late payments an individual has and their severity play an important role in a credit score.

Outside of the credit score itself another thing a lender may take into consideration is a person's total debt relative to their overall monthly income. This is also known as debt-to-income ratio. If a person's total debt levels become elevated this makes them less attractive borrower to lenders as their risk for delinquent payments or default substantially increases.

WHAT IS GOOD CREDIT?

The most commonly recognized credit score is the FICO score. FICO stands for Fair Isaac Corporation the original creators. The FICO Scores range from 300 to 850. The higher an individual's score the less risky the borrower is considered. A FICO score from 300-579 is considered to be a poor score. Many credit applicants will be denied credit with ratings at this level. A score from 580-669 would be given a Fair rating. Even still those individuals

that fall into this score are still considered at risk of delinquency. A score from 670-739 is considered good and borrowers should not have issues receiving credit. An individual with a score from 740-799 are deemed to be very good borrowers and are more likely to receive competitive lending rates. Finally, those that have a score between 800-850 have exceptional credit. These applicants will receive the best and most competitive lending terms.

WHY DOES CREDIT MATTER?

A good credit score is important because it is a major factor for whether you'll qualify for a loan but also what the terms of that loan will look like. A person with a good credit score will often qualify for a

lower interest rate. This can make a huge difference depending on the size of the loan and its length; it could save an individual give figures or more over the course of the loan term. A good or exceptional

credit score can also be a positive differentiator and help someone secure the house or apartment they are looking to rent. When deciding between potential renters, a landlord would be more inclined

to choose the renter with the higher credit score, based on past history they would be more likely to consistently pay their rent in full and on time.

HOW DO I BUILD CREDIT?

The easiest way to build credit is through a credit card but it can also be the easiest way to screw up your credit score. It's very important to be mindful of credit card usage. The best practice for credit card usage is to ensure that any charges on the card can be paid off quickly. The simplest way to do this is to pay the entire balance each month. Consistency with this practice will help to establish a very good credit score. Also getting a card with a low spending limit will restrict the opportunity for overuse.

There are other ways to build a person's credit without using a credit card. Student loans, auto loans and secured loans are options. Without any credit history at all you may need to get a co-signer for an

auto loan. Using another person with established credit as a co-signer lowers the overall risk in the lender's eyes and makes it easier to obtain the loan. A secured loan is when you use collateral such as a deposit at a bank and then borrow against it. In order to ensure that the secured loan will show up on a person's credit report they would need to check with the institution beforehand.

For an individual starting out it is important to be consistent and responsible in establishing credit. Starting small at first is important because strong credit scores are not created overnight, they take time, months and even years. Being responsible and diligent early on can save untold thousands later on in life.

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