

How does Credit Function?

SAFA Financial Literacy Lesson

What is credit?

Credit is the ability to borrow money from others or access goods and services with the knowledge that you will pay back the money later.



Why is credit important?

Credit is crucial as it establishes your trustworthiness. This means it will be easier for you to get a loan or credit card far easier, as there is greater trust that you will pay back the money later. This is why you should work to improve your credit.



How does credit work?

Essentially, your credit is determined by looking at your credit history. It is determined based on your trustworthiness in the past, which determines how likely you are to pay back a loan or credit card now. This trustworthiness(creditworthiness) is determined by looking at how you payed back credit in the past. As a result, it shapes whether you will be offered the loan or given a favorable rate.



How to improve your credit

Make sure to pay back credit, as your credit-score will be improved due to you being trustworthy. Make sure to pay credit card debt in particular, Make sure to reduce your credit utilization ratio, as it is crucial in improving credit. Essentially, you should use less than 30% of your credit card's total available balance for a better score.

