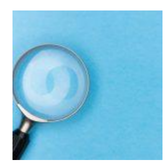

What is credit and why is it important?

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Credit is a huge aspect of everyone's future. From renting an apartment to buying a house or car, you need good credit to get the things you need to survive. If you're wondering what credit is and how it works, keep reading to learn more.

What is credit?

Simply put, credit is your power to borrow money with the promise of repayment by a specific date.

Oftentimes, the repayment includes interest, which means you're paying an additional fee to borrow the money. There are several different kinds of credit, from credit cards to mortgages, that provide you with ways to pay for expenses without having cash on hand.

It’s important to remember that any amount of money you spend on credit typically costs you more in the long run unless you pay it back within a given time.

How does credit work, and why is it important?

Your credit history determines your credit score. Essentially, your credit history is a story of your financial borrowing and repayment past.

If you have a proven track record of paying your bills on time, your credit score will continue to grow. These bills include credit cards, rent, mortgage payments, electricity, car payments, and even some medical bills.

A high credit score tells lenders that you can be trusted to borrow money. Those with a high credit score are rewarded with lower interest rates, higher borrowing limits, and more perks.

A low credit score can result in a high-interest rate or even your ability to borrow money at all.

Types of credit

There are three main types of credit:

Revolving Credit

Revolving credit is a line of credit that you can use freely but does have a borrowing cap or rules on how much money you can spend. This type of credit generally requires monthly payments with a set interest rate as long as your payments are on time.

The most common uses of revolving credit are credit cards and home equity lines of credit.

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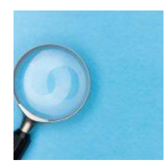

Installment Credit

Installment credit is a line of credit for a set amount of money with an agreement to repay the entire amount over a set period of time. Examples of installment credit are your mortgage, car loans, and student loans.

This type of credit has interest factored into each payment with payment dates set in advance.

Open Credit

Open credit is rare and often associated with charge cards (which are different from credit cards). Open credit is a set amount of borrowed money that needs to be repaid in full each month. There is no ability to have a revolving balance without steep penalties.

Beginning your credit journey early helps you achieve the goals you have for the future — including buying a house. Still, it's essential to be mindful of your spending and ensure you pay on time every month.

Many college students get carried away with their first credit card and end up struggling to pay it off — amassing even more in fees and interest. If you're considering opening a line of credit, remember not to spend more than you can pay off in one month.

Have more questions about credit and why it's important? The Frank Team is here to help! You can reach us via email at support@withfrank.org or text us at (347) 690-7886.

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