

# Credit Reports & Credit Scores



Every person in the USA and most other countries has a **CREDIT REPORT**, which includes information about your past and existing credit, including credit card accounts, mortgages, and student loans. It outlines how much you owe, how long each account has been open, and if you make payments on-time.




A **CREDIT SCORE** is like a grade that's given to your credit report. This three-digit number typically ranges from 300 to 850. In the USA, this score is known as a FICO score and it is called something different in every country. A big part of #adulting is making sure you keep your credit score as high as possible.




To have "good credit" means a lender can trust you to pay back the money loaned to you. The more trust you have, the more opportunities you have and the more money you will save in the long run, through factors like lower interest rates.

## REAL LIFE EXAMPLE:



Let's say you want to buy a Jeep Wrangler, and you need to take out a \$10,000 loan to do so. If you have an excellent credit score, you may receive an interest rate of 4.9% with a 60-month (5-year) payoff. This means you pay \$188 each month, or \$11,295 at the end of the five years. 

However, if you have no credit or bad credit, the results are very different. For example, if you receive an interest rate of 9.5%, over 60 months you would pay \$210 each month, or \$12,601 in total. That's \$1,300 more than if you had applied with excellent credit. 

## HOW AND WHEN CAN I BEGIN BUILDING MY CREDIT SCORE?

You can't apply for a credit card on your own until you are 21 (18 in certain circumstances but you will need a co-signor). Below are ways to build credit before you turn 21.



Get a Secured Credit Card. This is kind of the same idea as a debit card, but you will build credit. Give the bank \$500 as collateral, and you will have a \$500 credit limit. You pay off the balances like a regular CC, but the bank keeps your cash in case you default (don't pay.)



Get a Student Credit Card. If you are enrolled in college, you may qualify for a simple, low credit limit card. Do your research - some require co-signors, but others do not.



Talk to your parents about adding you as an authorized user on their Credit Card. Your parents can technically add you as an authorized user when you are a child. They are ultimately responsible for all of the purchases you make, so there needs to be a lot of trust. If they are not comfortable with that, they can add you but not give you the card. This will still (slowly) give you some credit history.

If none of these options make sense for you, **DO NOT WORRY!** By understanding how Credit Score works, you will be ahead of the game when you turn 21 and have the ability to quickly and responsibly build your credit.

# HOW DOES A CREDIT SCORE AFFECT MY LIFE?

Credit Score is typically known as FICO score in the USA



## GOOD CREDIT SCORE

- Gives you the ability to get loans, new credit cards, and the ability to buy your dream home
- Makes you more desirable when applying for a job
- Makes you more desirable as a tenant for a rental property



## BAD CREDIT SCORE

- It will be tough to get loans, new credit cards, and a mortgage for your dream home, and if you do, you will pay more in interest
- Could be seen as red flag to a potential employer
- Many landlords will NOT rent to a tenant with a low credit score

# WHAT FACTORS DECIDE MY CREDIT SCORE?

- **Payment history.** Do you pay bills on time or are you occasionally late?
- **Amounts Owed.** Amount of money you owe compared to the amount you are allowed to borrow. Did you max out your \$1,000 credit limit?
- **Length of credit history.** How many years have you been using a credit card or taking loans?
- **New Credit.** Have you applied for a new credit card or loan lately?
- **Credit mix.** Do you just have a credit card or do you have several loan types?

## FICO SCORE

A big factor is keeping the amount you owe low compared to the amount of credit you have. Ex. if you have a \$1,000 limit on a credit card, you want to keep the balance below \$300. Pay credit cards off in full each month to be safe!

30%  
Amounts Owed

35%  
Payment History



10%  
New Credit

15%  
Length of  
Credit History

10%  
Credit Mix

Applying for a new credit card or line of credit hurts your score in the short term. So does applying for many accounts at once. However, in the long term it will boost your score to have more credit available.

The longer your credit history, the better. If you trust yourself to manage one, get a credit card early on in life

The most important thing is to ALWAYS pay bills on time. Even one late payment will lower your score

There is no exact formula, but you don't want to have too few or too many lines of credit. Ideally, have at least one credit card and one other type of loan.

# FACILITATORS GUIDE: CREDIT

## MythBusters: Credit Edition

**THE GOAL:** Participant(s) should leave with an understanding of how their credit report and credit score will affect their lives, along with some basic knowledge on how to keep their scores high.

**THE LOGISTICS:** Two games will be played to test knowledge on Credit Score. Participant(s) will collect points during this game - encourage them to tally their points individually or you may act as the score keeper.

**GAME #1:** To be played BEFORE handing out the credit Launch Hack. Hand out the Myth Busters: Credit Edition sheets. Have each participant take 2 minutes to circle the things they believe affect a credit score. Tell them at least one is correct and not all of them are correct. Once completed, ask them to read aloud their answers and see if anyone is correct. Read the correct answers (Payment History, Amount Owed, Length of Credit History, New Credit, and Credit Mix) and tell those who got it correct to award themselves 2 points.

**HAND OUT THE CREDIT SCORE LAUNCH HACKS.** Allow 3-5 minutes for participant(s) to read over the information. Tell them that the information will be helpful when playing the next game.

**GAME #2** Assign one corner of the room you are in as "True" and another corner as "False." Tell participant(s) that you will be reading statements and they need to decide whether the statement is true or false and go to the appropriate corner. Once you read each statement, start a timer for 15 seconds and participant(s) who are not in one corner or another at the end of that time are disqualified for that round. The participant(s) who choose "true" or "false" correctly receive 1 point per round. There is no negative affect on points for wrong answers. When the 15 seconds is up for each round, announce the correct answer and ask those who chose correctly to answer why they chose the answer. The first person to answer correctly gets an additional point. Correct answers and reasons why are below.

### STATEMENTS:

1. A Bad Credit Score Lasts Forever. False - if you begin to make better decisions, your credit score can go up over time.
2. It Takes a Long Time for a good Credit Score to Go Bad. False - your credit score can drop significantly and quickly if you make a big mistake like not paying bills on time.
3. Using Debit and Prepaid Cards do Not Help Build Your Credit Score. True. There is no "credit" aspect so it does not affect credit score.
4. You Have to Make a Lot of Money to Have a Good Credit Score. False. Income isn't a factor in your credit score.
5. Applying for several credit cards at once can negatively affect your credit score in the short term. True. New Credit inquiries can sometimes raise red flags that you are desperate for access to money.
6. Closing a Credit Card Will Improve Your Credit Score. False. Leaving accounts open, especially if they're in good standing, is typically better for your credit score since length of credit history is an important factor.
7. Having Money in the Bank Means You Have a Good Credit Score. False. Bank balances do not affect credit score. Even millionaires can have bad credit if they are not paying their bills on time.
8. Always Paying Bills On-time is the Most Important Factor in Your Credit Score. True. This counts as 35% of your score.
9. Keeping a high balance on your credit card each month is bad for your credit score. True. You want to keep a balance of 30% or less of your max amount month to month.
10. You can open a credit card on your own at age 18, without a cosigner. False. You must be 21.
11. You should check your credit score at least once a year. True. You need to make sure there are no mistakes and give yourself time to raise your credit score if it is low before applying for a loan or credit card.

**THE ITEMS:** Launch hacks, Mythbusters worksheet, "True" and "False" signs to put in 2 corners of the room.

**THE WRAP UP:** Tell the participant(s), "All of us will have a credit score at some point, and it is our responsibility to make sure it is excellent. While it may seem far off that we have to worry about this, there are ways we can begin building credit now. The most important thing to remember is that taking out a loan or a credit card requires a lot of self control. You are allowed to apply on your own at 21, but do not even think about it until you trust yourself to use it responsibly."

## MYTHBUSTERS: CREDIT EDITION

### WHAT FACTORS DECIDE MY CREDIT SCORE?

#### CIRCLE WHICH YOU THINK APPLY

Payment history - do you pay bills on time or are you occasionally late?

Amount of debt you owe

Liquid Assets - how much money you have in your checking and investment accounts

Your Gender

New Credit - have you applied for a credit card lately?

Criminal Record - do you have one?

Credit mix - do you just have a credit card or do you have several loan types?

Geographical - which city you live in

Length of credit history - how many years have you been using a credit card or taking loans?

Your annual income