girl scouts of western washington

Discover
Girl Scouts at Home

Seniors/Ambassadors

Financial Literacy 2020

CREDIT

Life Skills

Step 1 The Basics: How Credit Works

The rules of credit are few and simple. A lender extends you a line of credit. You agree to pay the lender back the amount you spend plus interest charges and perhaps additional service fees. A payment schedule is set up, and you are required to make payments according to that schedule. **The most important advice is to pay your bills on time.**

There are generally four types of consumer credit (the kind of credit you use, as opposed to what corporations might):

Revolving credit: This type of credit is open-ended; when you borrow, you'll agree to repay a certain amount each month, but you won't be expected to repay all the money by a definite end date. Instead, you'll be able to carry a balance and borrow more — up to a preset limit — each month. The longer the principle of the debt remains unpaid, the more interest you'll pay on it. Credit cards are the most common form of revolving credit.

Charge cards: They look and work much like credit cards, but with charge cards you have to pay the balance in full each month.

Service credit: Anyone who provides you with a service and bills you in arrears (after you've received the goods or services) is extending service credit to you. This type of credit includes your utility companies, landlord (if you rent an apartment), mobile phone provider, etc. Each month, you pay an agreed-upon amount. While this kind of credit doesn't typically appear on credit reports, if you fail to pay your bills on time, these creditors could report the late payments to the credit bureaus or send the account to a collections agency that reports late payments, causing the negative information to appear on your credit report and harm your credit score.

Installment credit: This is the kind of credit most people typically think of as loans. If you have a mortgage or a car loan, it's installment credit. It's probably the most commonly used and easiest form of credit to understand. You borrow a specific amount from a lender, and agree to repay it with interest in installments of a specified amount over the life of the loan — usually ranging from months to years.

Credit can be a powerful tool to help you achieve your financial goals. It's important to understand how it works, how to build your credit and how to ensure your credit history always works for you.

Discuss credit with a member of your household. What types of credit do they have?

SOURCES used in developing this program: Experian.com, Chase.com, FTC.gov, Consumer.gov, DaveRamsey.com

girl scouts of western washington

Discover Girl Scouts at Home

Seniors/Ambassadors

Financial Literacy 2020

CREDIT

Life Skills

Step 2 Understanding Your Credit

When people talk about your credit, they mean your credit history. Your credit history describes how you use money. For example:

- How many credit cards do you have?
- How many loans do you have?
- Do you pay your bills on time?

How you handled your money and bills in the past will help lenders decide if they want to do business with you. Your credit history also helps them determine what interest rate to charge you.

- If they see that you always pay your bills on time and never take on more debt than you can pay back, they will generally feel more confident doing business with you.
- If they see that you are late on your payments or owe more on credit cards or loans than you can repay, they might not trust that you will pay them back.

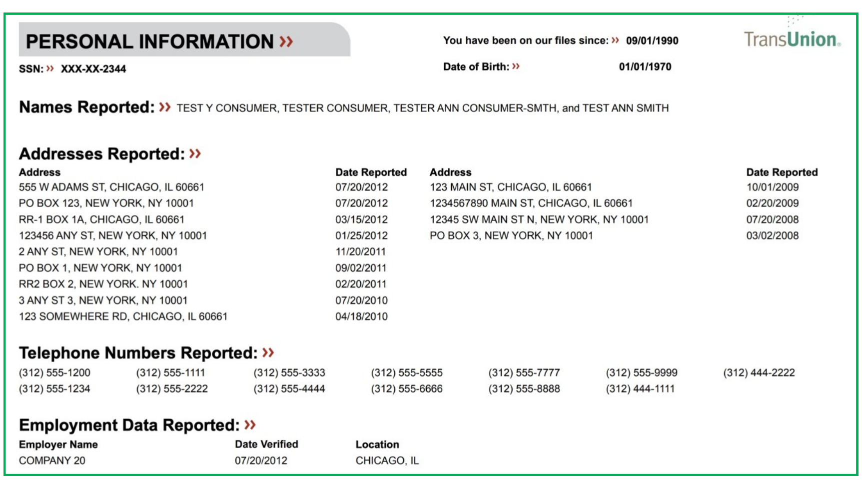
Lenders, landlords, insurance companies, and potential employers are a few who might look at your credit history. Your credit history can make a big difference when you:

- Apply for a loan or credit card.
- Look for a job.
- Try to rent an apartment.
- Try to buy or lease a car.
- Try to get rental or home insurance.

Because these lenders, landlords, and others care how you handle your bills and other financial decisions, you need to care about your credit, too.

Watch this video from the Federal Trade Commission.

Order your free annual credit report from one or all of the national credit reporting companies.



PERSONAL INFORMATION »

You have been on our files since: » 09/01/1990

TransUnion

SSN: » XXX-XX-2344

Date of Birth: » 01/01/1970

Names Reported: » TEST Y CONSUMER, TESTER CONSUMER, TESTER ANN CONSUMER-SMTH, and TEST ANN SMITH

Addresses Reported: »

Address	Date Reported	Address	Date Reported
555 W ADAMS ST, CHICAGO, IL 60661	07/20/2012	123 MAIN ST, CHICAGO, IL 60661	10/01/2009
PO BOX 123, NEW YORK, NY 10001	07/20/2012	1234567890 MAIN ST, CHICAGO, IL 60661	02/20/2009
RR-1 BOX 1A, CHICAGO, IL 60661	03/15/2012	12345 SW MAIN ST N, NEW YORK, NY 10001	07/20/2008
123456 ANY ST, NEW YORK, NY 10001	01/25/2012	PO BOX 3, NEW YORK, NY 10001	03/02/2008
2 ANY ST, NEW YORK, NY 10001	11/20/2011		
PO BOX 1, NEW YORK, NY 10001	09/02/2011		
RR2 BOX 2, NEW YORK. NY 10001	02/20/2011		
3 ANY ST 3, NEW YORK, NY 10001	07/20/2010		
123 SOMEWHERE RD, CHICAGO, IL 60661	04/18/2010		

Telephone Numbers Reported: »

(312) 555-1200	(312) 555-1111	(312) 555-3333	(312) 555-5555	(312) 555-7777	(312) 555-9999	(312) 444-2222
(312) 555-1234	(312) 555-2222	(312) 555-4444	(312) 555-6666	(312) 555-8888	(312) 444-1111	

Employment Data Reported: »

Employer Name	Date Verified	Location
COMPANY 20	07/20/2012	CHICAGO, IL

What if you find errors in your credit report? Follow the guidelines for disputing errors on credit reports from the Federal Trade Commission.

Seniors/Ambassadors Financial Literacy 2020

CREDIT

Step 3 Credit Scores

Your credit score is a three-digit number generated by a mathematical algorithm using information in your credit report. Lenders use credit scores to determine who qualifies for a loan, the interest on a loan and the credit limit.

There are three main credit bureaus that collect and maintain the information that determines individuals credit scores: Equifax, Experian, and Trans Union. Please note that there may be differences in your credit score from these three credit bureaus as they may report or receive information on different dates, use different scoring methods or algorithms, and/or some lenders or billing agencies do not report to all three agencies.

The 5 factors that make up a FICO credit score:

- Payment history: (35%) – Account payment information, including any delinquencies and public records.
- Amounts owed: (30%) – Account balances. The amount of available credit being used on revolving accounts is heavily weighted.
- Length of credit history: (15%) – When accounts were opened and time since account activity.
- Types of credit used: (10%) – The mix of existing accounts, such as revolving and installment.
- New credit: (10%) – Your pursuit of new credit, including credit inquiries and number of recently opened accounts.

Personal or demographic information such as age, race, address, marital status, income and employment don't affect the score.

What is a Good Credit Score?

Most credit scores operate within the range of 300 to 850. The higher the score, the lower the risk!

- Excellent Credit: 750+
- Good Credit: 700-749
- Fair Credit: 650-699
- Poor Credit: 600-649
- Bad Credit: below 600

Remember, lenders all have their own definitions of what is a good credit score.

Why should you care about credit scores?

- Determines the ability to get a mortgage: If you have a bad credit history, your home loan may be denied, or you may be charged a higher interest rate.
- It is a sign of financial responsibility: Higher scores can mean lower premiums on insurance etc.
- Means to obtain lower interest rates: lower credit scores trigger higher interest rates on loans.

Credit reports do not contain your credit score. There are lots of places online to get your credit score but beware, some of these websites charge a fee. Read this article to find out more. With a member of your household, request your credit score.

girl scouts of western washington

Discover Girl Scouts at Home

Seniors/Ambassadors

Financial Literacy 2020

CREDIT

Life Skills

Step 4 Establishing Credit in High School

Good credit is a basic building block for many financial goals, from getting a car loan to qualifying for a mortgage. Although some tools for improving credit are only available to people over 18, there are steps you can take to begin building your credit. Here are some tips on how to build your credit in high school:

Check your credit score--Know where you are starting from by checking your credit score. Many banks now provide a free credit score to you as a service. You are also allowed, by law, to ask for a free credit report every 12 months from each of the three main credit reporting agencies: Experian®, Equifax® and TransUnion®. The credit reporting agencies do not typically have minors' credit reports, but there may be some cases in which a minor does have a credit report. A minor may have a credit score if they were set as an authorized user or cosigner on a credit card or if they have been a victim of unauthorized or fraudulent activity.

Checking your credit score regularly also allows you to identify and flag cases of fraud and theft on your report. Children's social security numbers can be used by identity thieves to open credit accounts, which they then max out. And because children rarely check their credit scores, those accounts can sit for years accruing interest and penalties. Proactively checking your credit can help protect you and your credit rating before you even apply for your first card.

Checking your credit score tells you what you are working with and can highlight your strongest credit areas, as well as those which may need some work.

Open a checking and savings account--You can open a checking account at 13 if your parents or guardians sign up as joint owners on the account. This is typically the case for people under the age of 18. Once you turn 18, you can get a checking and a savings account on your own.

Checking and savings accounts do not directly factor into your credit rating, but they are the foundation on which you build your finances and the first step toward building a history of paying bills on time. Being responsible for your bills is the biggest factor that impacts your credit score. With a checking and/or savings accounts you can deposit money and learn the basics about managing and growing your money; from earning interest to putting repeating bills on automatic payment.

:

Step 4 Establishing Credit in High School-Continued

Get a job – Credit card companies are legally obligated to ensure that you are able to repay your debt before they can issue you a card. Having a job will show lenders that you have money coming in, which can be used to pay bills and credit cards.

And be sure to save once you have a job. While you will undoubtedly want to spend some of your hard-earned money, building your savings will help you develop long term-financial stability, by giving you the means to weather financial rough spots, and take advantage of investment opportunities when they come your way.

Become an authorized user on your parent's card – If you're 18, your parents can add you as an authorized user on their credit card, which can help you use their credit history to boost your own. You don't have to use the card, or even see it: their regular activity will help improve your credit. Keep in mind, though, that if your parent's credit score is poor, it can affect yours. And, if they miss a payment or run up a lot of charges, your score may also be affected.

Get a secured credit card – When you turn 18, you can apply for a credit card, but if you're just starting out, you might not have the credit score required to qualify for a traditional card. You could instead consider a secured credit card. These cards are designed specifically for people who are just starting out on their credit journey and have not built up the kind of payment history you need to develop a strong credit score.

A secured credit card is a type of credit card that requires a security deposit paid by the cardholder in advance. The amount of the security deposit typically serves as the credit limit. So, if you provide a $500 in your secured credit card account, you will likely have a $500 credit limit. It's important to review the terms that come with that card, such as fees, interest rates, and the security deposit.

Many banks regularly report activity on a secured card to the three major credit reporting agencies. So, by using your secured credit card, you can build up a history of being a responsible user of credit. Whether you can make consistent on-time payments is one of the factors considered by lenders when they review your application.

Ultimately, there is no "secret" to learning how to build credit at a young age. Getting your first job, keeping a budget, and staying on track of any upcoming due dates on bills will help build your credit as long as your payments are made on time.

Step 5 Tips to Improve Your Credit

Building and improving your credit and credit score takes time. Here are some things you can do to help yourself.

Paying your bills on time. A sure-fire way of paying bills on time is by setting recurring payments on "auto pay" in your online banking account. Credit card companies, loan providers, and utilities can usually offer you automatic payment options that will deduct the amount due automatically from your checking account.

Reduce the amount of debt, you owe. One good step is to start a debt reduction plan to clear up your finances—and set you on the path to a better score. Start by paying off your high interest rate cards: put all your effort into paying off a higher rate card, while maintaining payments on all other cards on auto pay. Once you have paid off the balance, do not cancel your card! Keep it open, even if you do not use it, so you can boost your credit utilization.

Start a new credit history. One strategy some people use to improve their payment history is to take out a credit card that is easier to qualify for, like a gas station or store card, and consistently pay off the balance each month. The good behavior can slowly put you in a better financial position. But be careful that this strategy does not backfire on you: you do not want to take out new cards if you think you will be tempted to rack up more debt.

Do not take out too many cards. Sometimes it seems like a good move to open a new credit card with a merchant to get a discount on an item. But try not to go overboard and take advantage of many discount offers over a short period of time. Each new card comes with a "hard inquiry" on your credit report by the merchant, which can have a negative impact on your credit score.

Do not close your cards. Once you have paid off a card, it can be really satisfying to cut it up! But do not close your account. Keeping your credit card account open but unused helps give you a long, established credit history, and can improve your overall credit utilization ratio. (You can always put it in a drawer if you do not want to use it). Although sticking the credit card in a drawer has it benefits (including maintaining a favorable credit utilization ratio and low balance) you may also be able to request a credit card freeze. You may be familiar with a credit card freeze since it used whenever you report your credit card lost or stolen. In this case, you may use a credit card freeze if you want the card open in your name but do not want or need to use the credit card for purchases.

Diversify your credit mix. Many credit-scoring models like to see you using a diversified mix of credit, so it might make sense to consider taking out a personal loan, rather than relying on credit cards alone.`