

# Credit Matters

*A Component of BestPrep's Financial Matters Program*

**Presenter Info: Name and Company**



# Today's Discussion

**CREDIT:**

**What is  
credit?**

**Why is  
credit  
important?**

**How do I  
build credit?**



**When has someone relied on you to do something you said you were going to do?**



# Imagine your neighbor has asked you to watch their son New Year's Eve.



- Asked you in **September** – well in advance, because they wanted to be able to make plans
- Bought tickets to an event for the night
- Gave you **\$100 in advance** (essentially giving you a credit – you’re “paying them back”) with a promise that you’ll watch their son.
- On December 28th they reach out to you to find out what time you’re going to be there.
- But you’ve completely forgotten that you were going to watch their son and you’re planning to host a New Year’s Eve party.
- It was so long ago that you talked with them – you spent your \$100 already on food for the party.

**Credit is the belief from someone else that you're going to do something you said you were going to do.**



# What Is Credit?

- The ability to **borrow money, temporarily** (for a day, for a month, for years)
- A **promise** to pay back the borrowed money in the future
- Generally, there is a **cost** of credit, typically interest.

You are the **borrower**. Whoever lends you the money is the **lender**.

# Examples of Credit

- You borrow money to buy a car.
- You sign documents promising to pay \$35.00 a month for your smartphone.
- You loaned your buddy \$1.00 for a soda.

Who is the borrower and who is the lender in each situation?

# The “Three Cs” of Credit

## Character

Your reputation, credit history and job stability.

## Capacity

Are you able to repay the debt based on your income?

## Collateral

The property used to secure the loan.

# Knowledge Check: 1

What is credit?



# Why does credit matter?

- Useful in times of emergencies
- More convenient/safer than carrying large amounts of cash (e.g. credit card)
- Able to make a large purchase (e.g., car or house), and pay for it over time
- Impacts:
  - Ability to get a job
  - Ability to rent an apartment
  - Ability to obtain a credit card
  - The cost of your car insurance (if it's poor)
  - Decreases your ability to borrow (if it's poor)



# What is a credit report?

Your report card of your history of borrowing and payment practices.  
Credit information is gathered by credit reporting agencies:



# What is on your credit report?

- Name and current address, prior address(es)
- Length of credit history
- Payment history
- Type of credit used
- Number of recent inquiries made for new credit
- Any negative information about you in public records
- Determines Credit Score, a.k.a. FICO score

# What is not on your credit report?

- Race, religion, gender
- Salary, occupation, employer
- Interest rate being charged on a particular credit card or account

# Credit Score Factors



- 35% Payment History**
  - On Time!
- 30% Amounts Owed**
  - Less than 30% of Available Credit
- 15% Length of Credit History**
  - Longer is Better
- 10% Types of Credit Used**
  - Bank Loan/Credit Card/Mortgage
- 10% New Credit**
  - Number of Inquiries in Past 30 Days

# Credit Report Score Ranges



The average credit score for most people is **715** (falling in the “Good” range)

# Comparing Credit Score Ratings

Loan Type	Exceptional	Very Poor
Car Loan	Any auto dealer and/or Bank	High Risk = High Interest Down payments required
Housing	Will qualify for any housing applied for	May not qualify at all
Credit Card	Qualify for most credit cards, No Limit	Pre-Paid Card only
Job	No hesitation on an offer for employment	Possibly not considered – move on to another candidate

# Review Your Credit Report

It is always a good idea to review your report annually for accuracy and identity theft.

You can review it for free once a year at

[www.annualcreditreport.com](http://www.annualcreditreport.com)

You can also monitor credit activity at

[www.creditkarma.com](http://www.creditkarma.com)



# Knowledge Check: 2

## Turn and Talk!

- Why does credit matter?
- What is a credit report?
- What is a FICO score?



# How do I build my credit score now?

- Easiest way to build good credit is to have a credit card
  - You may need a co-signer if you are under 21
  - Each month, make 1 purchase using the credit card
  - Be certain that the amount of the purchase does not exceed 30% of the card limit
  - Pay the full balance on your credit card each month
- Can also build credit by:
  - Paying off cell phone
  - Paying rent, utilities and other bills on time

**Following a plan like this demonstrates that you know how to properly use credit.**

# It Takes Years to Build a Credit Score

- Be patient – good credit is built slowly over years, not months, but it can be **ruined** in months.
- Always pay on time!
- Sparingly apply for new credit; second and subsequent credit inquiries in a short period of time are a negative mark on your credit report
- Good and bad information remains on your credit report for 7 years; bankruptcies for 10 years

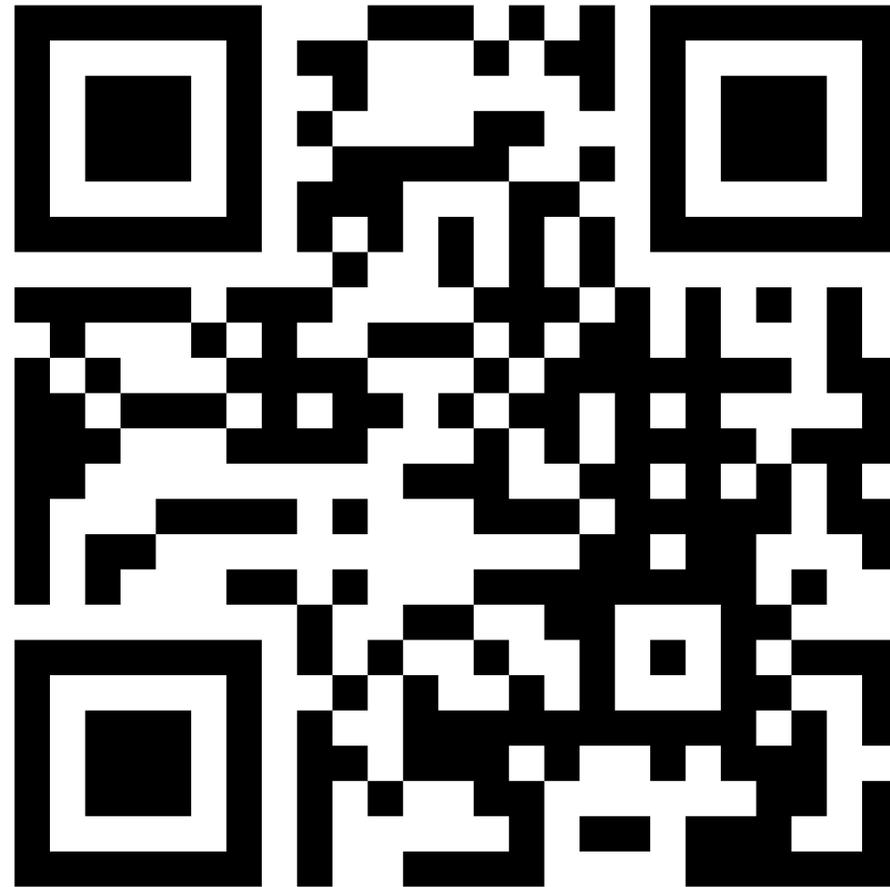
# Final Knowledge Check

## Turn and Talk!

- How can I build my credit score now?
- Why is credit important?
- What is credit?



# Student Survey



# Thank You!

BestPrep gratefully acknowledges the financial and volunteer support provided by several volunteers to offer Credit Matters as a part of Financial Matters.

