To Your Credit

SecureFutures

This presentation is based in part of FDIC MoneySmart and NextGen Personal Finance

FDIC FEDERAL DEPOSIT INSURANCE CORPORATION

How many Americans do not have credit history with a nationwide consumer reporting agency?

How many Americans do not have credit history with a nationwide consumer reporting agency?

Nearly 28 million

(Lexingtonlaw.com - 30 Credit Score Statistics for 2023
Source: Oliver Wyman, 3, Report:
Financial Inclusion and Access to Credit - 2022)

What we'll learn...

- What credit is.
- How to manage credit responsibly.
- What credit reports and credit scores are.
- How to build and improve your credit score.

How we'll do this...

- Active participation!
- Be engaged. Ask questions and participate in discussions.
- Respect each others thoughts, perspectives, and contributions.
- Maximize your experience by using the workbook.
  - Take notes and complete activities.
- Have fun while learning!

So… what is credit?

So... what is credit?

- It's money that is loaned to you
- It's paid back with interest when payments are made over time
- It's a way to buy now and pay later
- Accessibility is based on your borrowing history

Why does credit matter?

Managing credit responsibly can lead to . . .

Why does credit matter?

Managing credit responsibly can lead to . . .

- Lower interest offers on loans.
- Easier vehicle financing.
- Low cost/no cost security deposit with rental properties.
- Home-buying power.
- Higher credit scores can sometimes favorably impact your job prospects.

Many people use credit for...

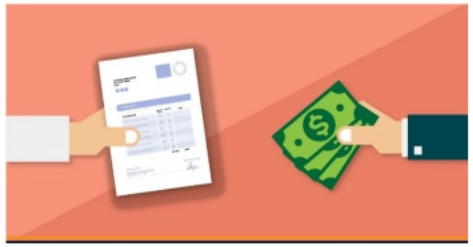
Many people use credit for...

AUTO LOANS

Loans from financial institutions used to purchase a vehicle; paid back in installments.

MORTGAGES

Loans used to purchase a home or commercial space.



PERSONAL LOANS

Loans taken for general purposes, (debt consolidation, personal needs, etc.)

STUDENT LOANS

Loans to help learners cover post-secondary educational costs.

CREDIT CARDS

Cards used to make purchases with funds loaned from the card issuer.

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Credit Card Vocabulary

2

1. APR
2. Grace Period
3. Available credit
4. Late payment fee

Sample Credit Card Statement

CARD Statement

Available Credit ③

Account Number	1234 1234 1234 1234
Statement Closing Date	07/09/2024
Credit Line	$2,100.00
Available Credit	$1,576.80

TERESA TORRES
123 ANY STREET
CITY WI 12345

④ Late Payment Fee

Grace Period ②

Account Summary

Previous Balance	$1,686.15
- Credits	$0.00
- Payments	$1,688.15
+ Purchases & Other Chgs	$523.20
+ Cash Advances	$0.00
+ FINANCE CHARGE	$0.00
= New Balance	$523.20

Payment Information

New Balance	$523.20
Scheduled Minimum Payment	$35.00
Scheduled Payment Due Date	08/01/2024

Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay a late fee of up to $35.00 and your APR s will be subject to increase to a maximum Penalty APR of 29.99%

Minimum Payment Warning: If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example:

If you make no additional charges using this card and each month pay...	You will payoff the balance shown on this statement in about...	And you will end up paying an estimated total of...
Only the minimum payment	1.5 years	$627
$49	1 year	$596 (Savings = $31)

If you would like more information about credit counseling services, call 1-800-555-5555.

Rate Information

YOU MAY PAY YOUR BALANCE IN FULL AT ANY TIME
YOUR RATE MAY VARY ACCORDING TO THE TERMS OF YOUR AGREEMENT
NOTICE: SEE REVERSE SIDE FOR IMPORTANT INFORMATION ABOUT YOUR ACCOUNT

APR ①

Type of Balance	Corresponding ANNUAL PERCENTAGE RATE	Daily FINANACE CHARGE RATE	Average Daily Balance
PURCHASES	19.80%	.05424%	$0.00
CASH ADVANCE(S)	21.80%	.05972%	$0.00

Days in Billing Cycle 30

Transactions

Trans Post	Reference Number	Description	Credits	Charges
06/11 06/11	xxxxxxxxxxxxxxxxxxxxxx	MERCHANT NAME		532.20
06/12 06/13	xxxxxxxxxxxxxxxxxxxxxx	PAYMENTS	1,686.15	

Detach and mail with check so that your payment is received no later than the "Payment Due" date. See reverse for important additional information.

Account Number	1234 1234 1234 1234
New Balance	$523.20
Scheduled Minimum Payment	$35.00
Scheduled Payment Due Date	08/01/24
Amount Enclosed	$

08/01/24

PAYMENT ADDRESS
123 ANY STREET
CITY WI 53000-0348

TERESA TORRES
123 ANY STREET
CITY WI 12345

NOTICE: SEE REVI

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Late Payme
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CARD *Statement*

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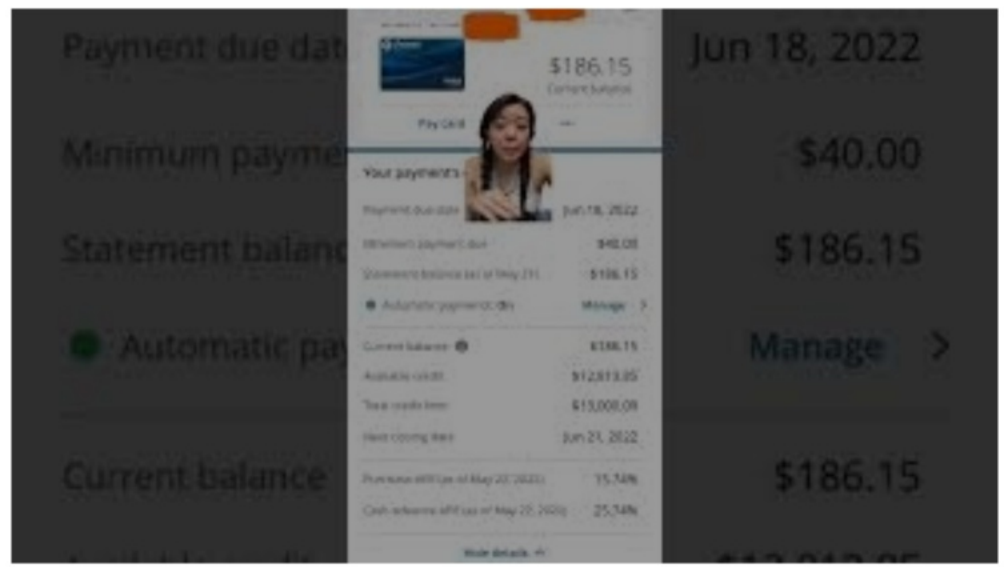
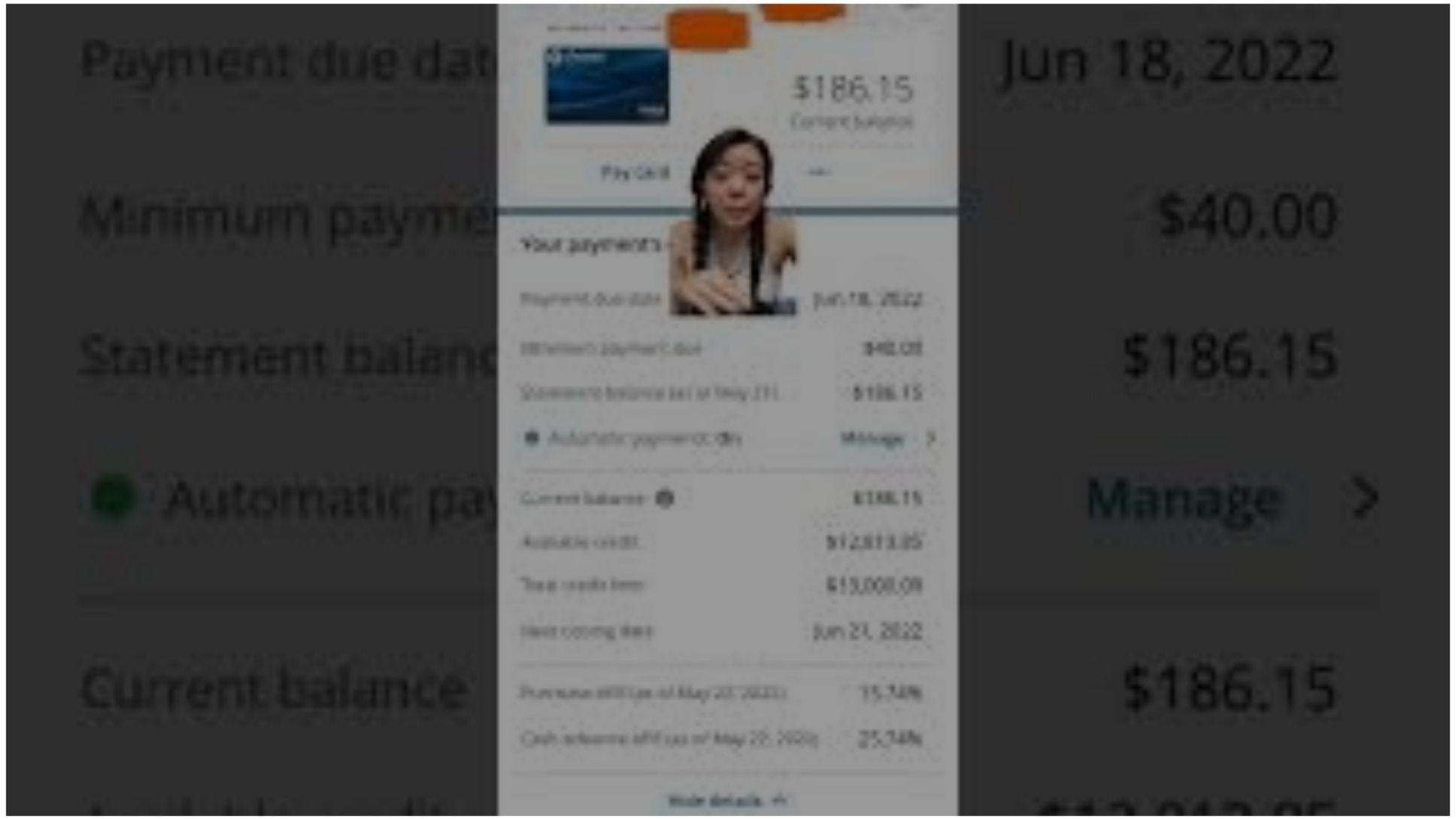
Timeline of a Credit Card Balance

Take advantage of your grace period to avoid interest charges!




Payment due dat
Jun 18, 2022
$186.15
Minimum payme
$40.00
Statement balanc
$186.15
Automatic pay
Manage
Current balance
$186.15

What's the Catch?

What's the Catch?

- Each billing cycle, credit card companies require a minimum, usually 3% of the balance (i.e. $3 for every $100).

- The annual percentage rate (APR) determines the interest owed. The APR may increase if a payment is late or missed.

- If what you owe is not paid in full and on time, you pay additional fees in interest, finance charges on the balance, and possibly late fees.

If the minimum payment is made...

Item	Price	Min. Monthly Payment (3% of balance or at least $35)	Interest Paid (19.8% APR)	Total You Pay Over Time	Time to Pay Off
Air Pods	$250	$35	$18	$268	???
PS5	$500	$35	$75	$575	???
Summer Vacation	$3,000	Starts at $90	$1,392	$4,392	???

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The benefit of paying MORE than the minimum payment

PS5 Original Balance	Monthly Payment	Total Time to Pay Off	Total Amount Paid
$500	$35	1 year, 5 mo	$574
$500	$75	8 months	?
$500	$500	1 month	?

The benefit of paying MORE than the minimum payment

PS5 Original Balance	Monthly Payment	Total Time to Pay Off	Total Amount Paid
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$500	$500	1 month	?

The benefit of paying MORE than the minimum payment

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$500	$500	1 month	$500

Q: What percent of Americans who have credit card debt won't be able to pay it off within a year?

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Q: What percent of Americans who have credit card debt won't be able to pay it off within a year?

A: 70%

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Compare Credit Card Offers

3

3 Comparing Credit Card Offers

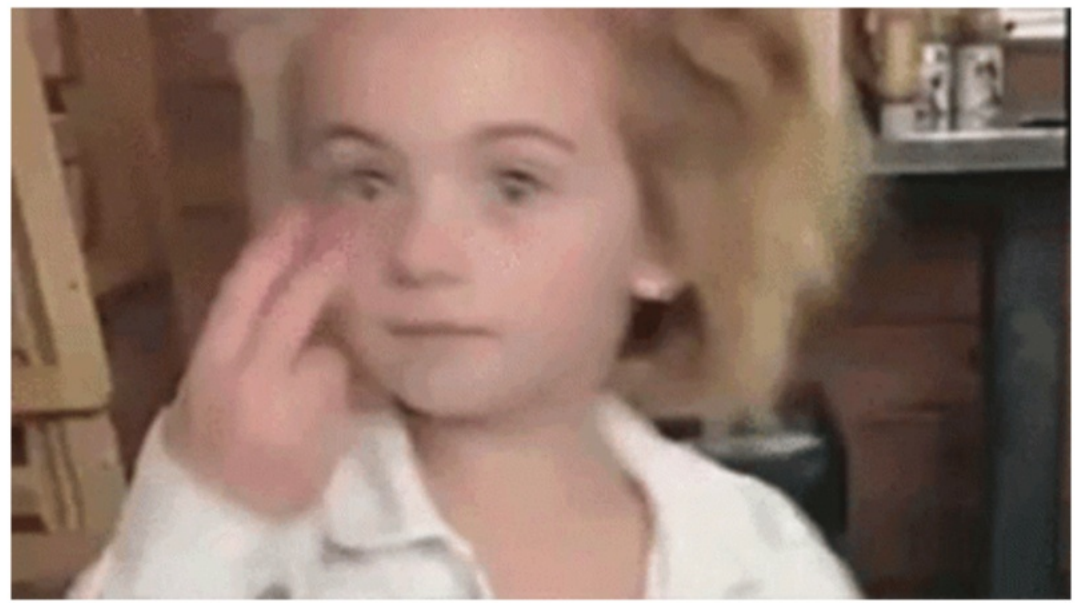
Work with a partner to select the card that is the best fit.

	Card A	Card B	Card C
Annual Fee	$0	$50	$0
Introductory Rate	None	0% for 6 months	0% for 12 months
Interest Rate	17.5%	13.9%	15.2%
Late Payment Fee	$45	$0 for the 1st late payment, then $41	$41
Over-the-Limit Fee	None	$35	None
Rewards	Travel points for air and hotel	None	1% Cashback on all purchases

So, how's your credit?

And why does it matter?

Your spending and payment habits are always under scrutiny and it's all tracked on your...



Credit *Report*

Credit *Report* = A detailed record of how you have repaid your debts

What is on a credit report?

What is on a credit report?

It lists:

- What types of credit you use
- The length of time your accounts have been open
- Whether you've paid your bills on time
- How much credit you've used
- Whether you're seeking new sources of credit

EQUIFAX® experian™ TransUnion®

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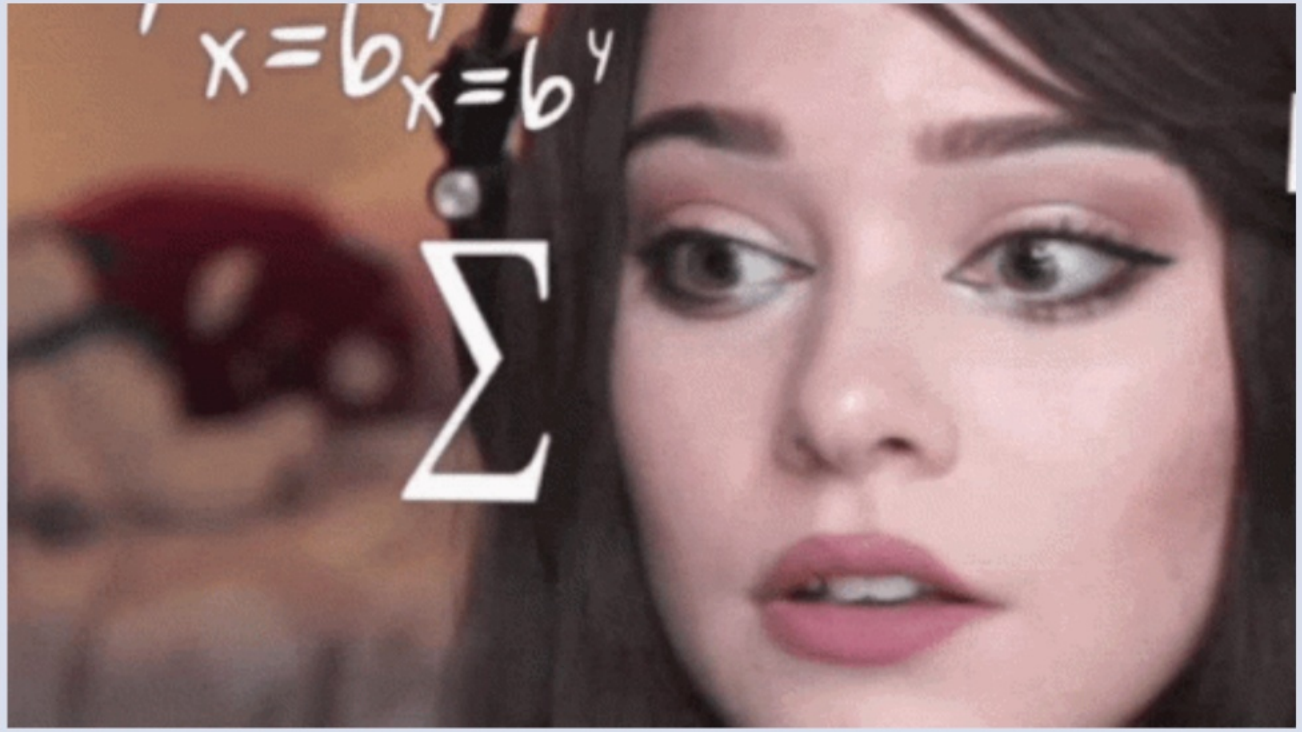
EQUIFAX® experian™ TransUnion®

This info is used to generate your credit scores!



Credit rating companies crunch all these numbers to make your…

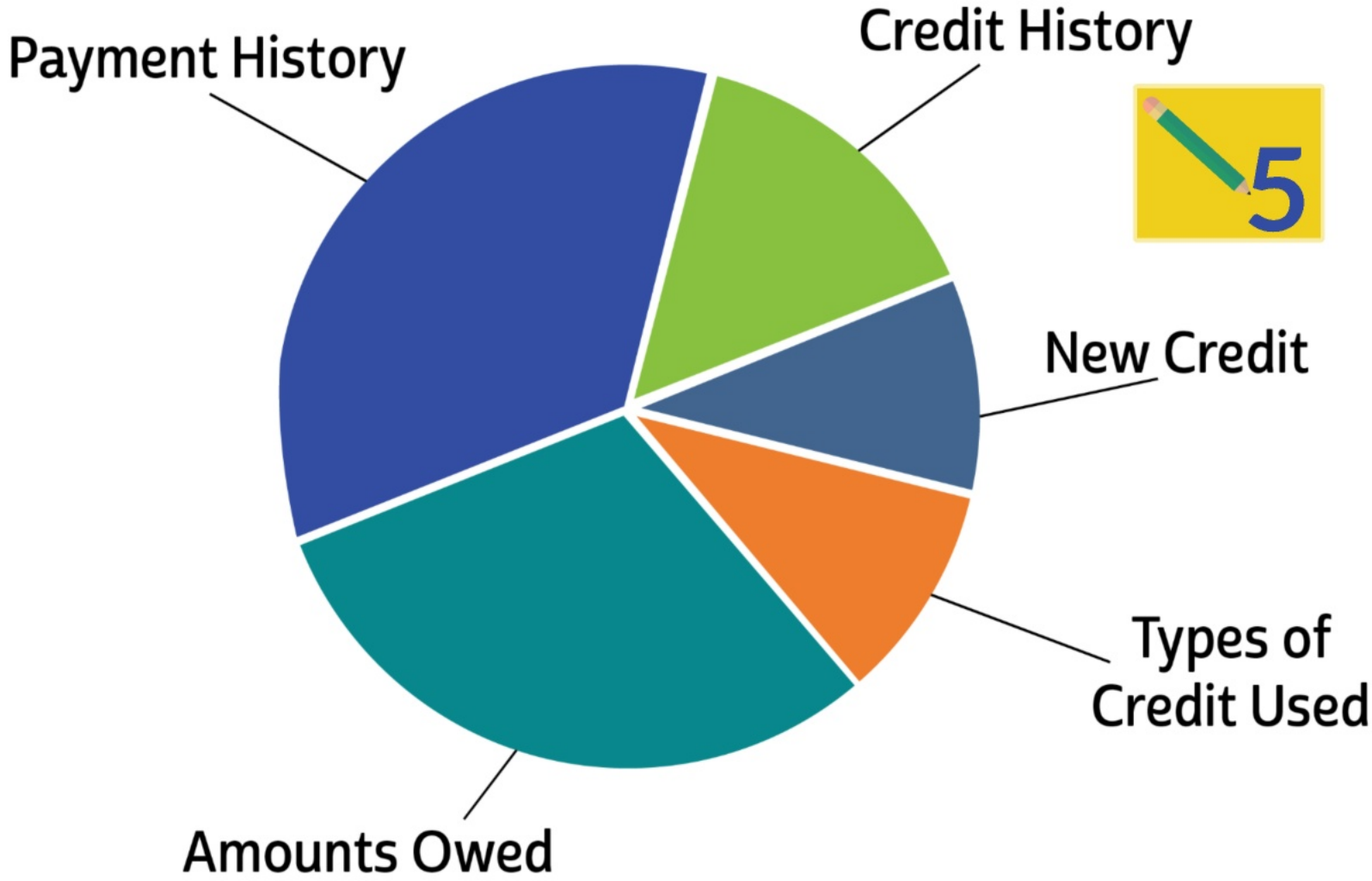
FICO®

VantageScore

Credit Score

Credit Score = A rating based on the info in your credit report. It represents your creditworthiness, or how likely you are to pay back a loan on time.

What's in your credit score?



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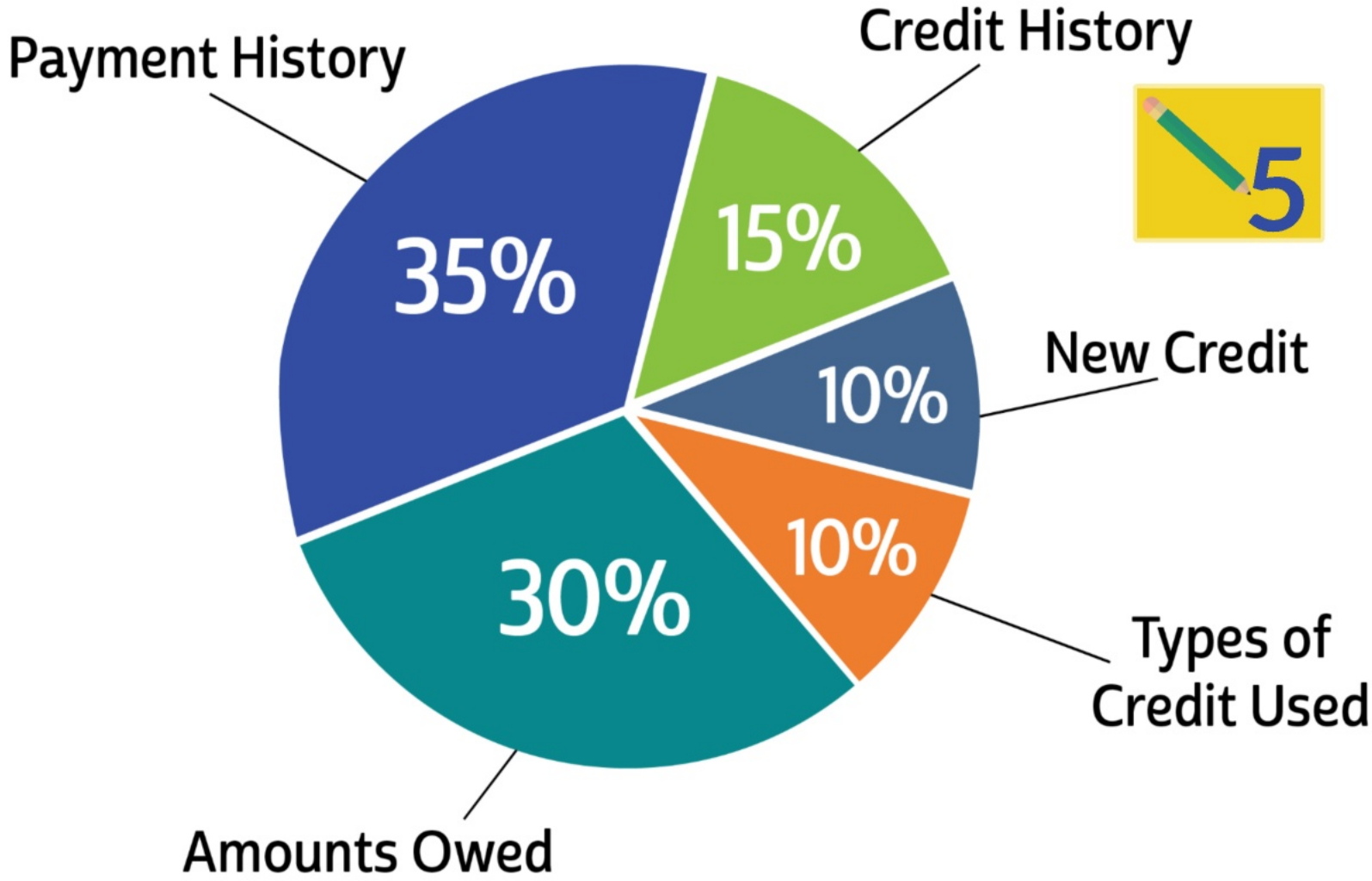

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FICO Score Ranges

800 - 850	**Exceptional.** You will likely have little trouble getting approved for credit and will qualify for the best loan terms.
740 - 799	**Very good.** You likely will qualify for better interest rates.
670 - 739	**Good.** Lenders see you as an "acceptable" borrower, but may require answers to additional questions about your credit history.
580 - 669	**Fair.** You might have difficulty getting credit. When you are approved, it likely will be at a higher interest rate.
300 - 579	**Poor.** This reflects some real hardships, such as bankruptcy, or a borrower who has not built up credit yet. If you are granted credit, you might need to put down a deposit or pay a fee.

Auto Loan

4-year used car loan for $15,000

Auto Loan

How can 2 people pay different amounts for the same car?

4-year used car loan for $15,000

FICO Score	APR	Monthly Payment	Total Interest Paid
720-850	7.85%	$365	$2,527
690-719	9.02%	$373	$2,925
660-689	10.98%	$388	$3,602
620-659	11.92%	$394	$3,934
590-619	15.29%	$420	$5,145
500-589	16.48%	$429	$5,581
< 500	**May need to find another form of financing**		

Actual Rates as of 9/25/24 (myfico.com)

Q: How long does it take to establish your first credit score?

Q: How long does it take to establish your first credit score?

A: About 6 months

(of on-time payments)

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Who can check your credit? Why?

Organizations and individuals with legitimate business concerns...

Who can check your credit? Why?

Organizations and individuals with legitimate business concerns...

- Lenders from whom you applied for loans
- Unsolicited financial institutions who are interested in getting your business
- Your potential landlord
- Your insurance agent
- Your employer

What's up with my Credit Score?

How do our financial decisions affect our credit score?

1. Listen to each scenario.

2. For each scenario, decide if your credit score goes up or down.

3. Discuss your answers.

Adapted from ngpf NEXT GEN PERSONAL FINANCE

Scenario #1

You skipped a credit card payment. Up or down?

CNBC Select - 5 Reasons Your Credit Score Could Drop

Scenario #1

You skipped a credit card payment. Up or down?

Your score could go down 63-83 points.

CNBC Select - 5 Reasons Your Credit Score Could Drop

Scenario #2

You take out a credit builder loan and make 12 consecutive on-time payments.
Up or down?

wallethub.com

Scenario #2

You take out a credit builder loan and make 12 consecutive on-time payments.
Up or down?

Your score may go up as much as 60 points.

wallethub.com

Scenario #3

You completely paid off a credit card and will only use it for emergencies.
Up or down?

The Ascent: Motley Fool

Scenario #3

You completely paid off a credit card and will only use it for emergencies.
Up or down?

Your score could go up 10 points or more.

The Ascent: Motley Fool

Scenario #4

You closed a credit card that you've had for eight years and no longer use. Up or down?

Nerdwallet.com

Scenario #4

You closed a credit card that you've had for eight years and no longer use. Up or down?

Your score may go down a few points.

Nerdwallet.com

Scenario #5

You missed a car payment by 2 days.
Up or down?

nerdwallet.com

Scenario #5

You missed a car payment by 2 days.
Up or down?

Your score stays the same. It doesn't change because your payment was not 30 or more days late.

nerdwallet.com

Ways to Establish Your Own Credit History and Score

If you are under 21, ask a family member with good credit to add you as an authorized user on their credit card.

- Pick someone you trust. If they don't pay the bill, your credit history will be impacted.
- Once removed from the card, your credit score will drop slightly if you do not open your own card.

Other options:

- Apply for a store credit card and use it responsibly.
- Apply for a secured credit card at your bank or credit union.
- Ask a friend or relative with an established credit history to be a co-signer on a credit card or loan.

Common Mistakes That Hurt Your Credit

Too many credit cards

Opening too many new accounts or loans in a short period of time

Not checking your credit report

Not notifying creditors when you move or change names

Not using your full legal name on financial documents (esp. if other people in your family have the same name!)

7 Go Do It Now!

Financial Issue	Best Practices to Help Manage Money Responsibly	My Financial To Do List
Credit Cards	☐ When I have any type of credit card, I will only buy things I can afford to pay for in full at the time I make the purchase. ☐ I understand that using my credit card to buy something that I will need to pay off for months or years will keep me in debt and result in me paying much more than the items I bought actually cost.	
Credit Score	☐ I will pay all of my bills and any loan payments I have on time and in full. ☐ When I have a credit card I will pay off the full balance each month on time. I will always pay more than the minimum required. ☐ I will not apply for multiple credit cards in short periods of time.	Create your action plan!
Credit Report	☐ I check my credit report at **AnnualCreditReport.com** at least once each year. *(Only use this site! Others can scam you and make you pay for your report.)* ☐ I will address any problems or inaccuracies I find on my credit reports with the credit reporting agencies.	
Building a Good Credit History	☐ I will consider the following when I am financially ready and responsible to help build a good credit history and score: ○ Applying for a store credit card and using for periodic purchases. ○ Talking to my bank or credit union about opening a secure credit card. ○ Talking to my bank about applying for a major credit card with a low credit limit and having a trustworthy co-signor age 21 or older apply with me. **(Remember, it is a joint account so if they use the card and don't pay off their purchases, it affects you.)**	

Financial Issue	Best Practices to Help Manage Money Responsibly
Credit Cards	☐ When I have any type of credit card, I will only buy things I can afford to pay for in full at the time I make the purchase. ☐ I understand that using my credit card to buy something that I will need to pay off for months or years will keep me in debt and result in me paying much more than the items I bought actually cost.
Credit Score	☐ I will pay all of my bills and any loan payments I have on time and in full. ☐ When I have a credit card I will pay off the full balance each month on time. I will always pay more than the minimum required. ☐ I will not apply for multiple credit cards in short periods of time.
Credit Report	☐ I check my credit report at **AnnualCreditReport.com** at least once each year. *(Only use this site! Others can scam you and make you pay for your report.)* ☐ I will address any problems or inaccuracies I find on my credit reports

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Building a Good Credit History	☐ I will consider the following when I am financially ready and responsible to help build a good credit history and score: ○ Applying for a store credit card and using for periodic purchases. ○ Talking to my bank or credit union about opening a secure credit card. ○ Talking to my bank about applying for a major credit card with a low credit limit and having a trustworthy co-signor age 21 or older apply with me. **(Remember, it is a joint account so if they use the card and don't pay off their purchases, it affects you.)**	

Questions?

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Please complete the evaluation found in your student workbook.