Building Credit 101

Your Credit Score is accumulated over time through credit history. Credit Scores are reported to the three major credit bureaus in the United States; *TransUnion*, *Equifax*, and *Experian*.

You can instantly follow your credit history on Credit Karma or Experian. They're apps that you can download on your mobile phone. Credit Karma reports your TransUnion and Equifax credit scores. Experian has their own app that you can download. Each mobile platform or website is very accessible for use.

Why do I need Credit?

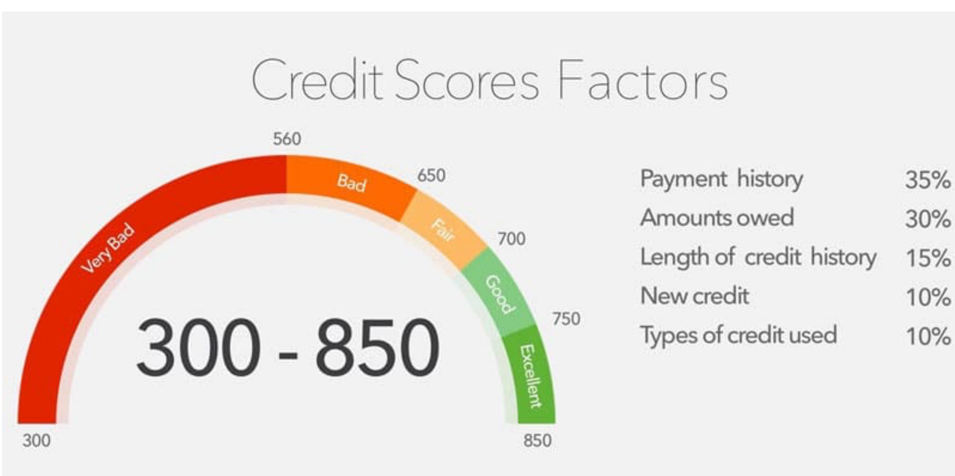
Credit helps you get approve for good interest rates when you make major purchases.

i.e. new house/mortgage, new vehicle, new loans, and any item that requires you to have monthly payments.

You want lower interest rates so you're monthly payments are low and so you don't have to pay more money that you want to in the long run.

Credit Factors: How is your credit score factored?

a) 35% Payment History
b) 30% Utilization
c) 15% Credit History
d) 10% New credit / Inquiries
e) 10% Diversity of credit accounts



Credit Factors Breakdown: What does each Credit Factor mean?

a) 35% Payment History

- ❖ Payment history is the most important ingredient to you credit score. One missed payment can have a negative impact on your score. Each account that you have open will have a payment date schedule and you want to make sure you make the payment before or on time of that scheduled date. The more payments you missed the more negative impact you will have to your credit score. If you have bad payment history it will be hard to apply for new credit or loans.

b) 30% Utilization
- ❖ Credit usage, is represented as your credit utilization ratio, it is the second most important factor in your credit score. Creditors do not want you to use more than 30% of your available credit and anything more than 30% will report negative to your credit score.
- ❖ So, if you have a credit limit of $1,000, you will want to make sure it's always lower than $300 on your account. Your "Credit Limit" is the amount of credit your creditors have given you. In this example we are saying that you have $1,000 to use on your credit card.
- ❖ If you multiple $1,000 (your credit limit) times 30% (.3) it will tell you what you need to have you credit card balance below.

c) 15% Credit History
- ❖ How old your credit accounts are makes up 15% of your credit score. This includes the age of your oldest credit account, the age of your newest credit account and the average age of all your accounts. Generally, the longer your credit history, the higher your credit scores.

d) 10% New credit / Inquiries
- ❖ The number of credit accounts you've recently opened, as well as the number of hard inquiries lenders make when you apply for credit.
- ❖ "Hard Inquiry" = ***when you apply for any new credit and a lender pulls your creditor report.***
- ❖ Too many accounts or inquiries can indicate increased risk, and that can hurt your credit score.

e) 10% Diversity of credit accounts
- ❖ People with top credit scores often carry a diverse portfolio of credit accounts, which might include a car loan, credit card, student loan, mortgage or other credit products.
- ❖ Credit scoring models consider the types of accounts and how many of each you have as an indication of how well you manage a *wide range* of credit products.

What does each credit score level mean? Range of credit scores 300-850:

1. **300-580 (Poor)**
   - ❖ This credit score is well below the average score of U.S. consumers and demonstrates to lenders that the borrower may be a risk.
2. **581-669 (Fair)**
   - ❖ This credit score is below the average score of U.S. consumers, though many lenders will approve loans with this score. The loans approved will have high interest rate, so trying to apply for loans will be challenging to secure a low interest rate.
   - ❖ Applying for a credit card will be available at this credit score.
3. **670-739 (Good)**
   - ❖ This credit score is near or slightly above the average of U.S. consumers and most lenders consider this a good score. At this score you'll be able to start applying for low interest rate loans.
   - ❖ Getting accepted for credit cards is high likely at this score.
4. **740-799 (Very Good)**
   - ❖ This credit score is above the average of U.S. consumers and demonstrates to lenders that the borrower is very dependable.
   - ❖ Getting accepted and approved at this score is normal.
5. **800-850 (Excellent)**
   - ❖ This credit score is well above the average score of U.S. consumers and clearly demonstrates to lenders that the borrower is an exceptionally low risk.
   - ❖ You'll have a variety of options available, as well as great low interest rate offers.

What's my first step to build Credit?

When getting started, you want to apply for a credit card or a personal savings loan to start building payment/ credit history.

You can look for an <u>unsecured credit card</u>, <u>secured credit card</u>, or <u>student credit card</u>.

a) Unsecured = a credit card that does not have collateral attached to it. Meaning that if you fail to make a payment or miss a payment, the lender or creditor cannot take anything away from you.

   i.e. Capital One – has a Platinum starter card that has a credit limit of $300. You'll want to keep your utilization below 30%, which is $90 for a $300 limit.

b) Secured = "Collateral" this card requires that you pay a cash deposit upfront to guarantee your credit limit. The "security deposit" or upfront cash deposit," acts as a safeguard for banks to cover any purchases, should you miss a payment.
   a. i.e. Discover – has a secured creditor card.
   b. You would only use a secured credit card if you can't get approved for an unsecured credit card. Or if you're trying to fix your credit. Otherwise apply for an unsecured credit card.

c) Student Card = A student credit card is a fully functioning credit card that is simply geared to students who are new to credit. ... Perhaps most importantly, lenders may grant lower limits and interest rates to students that will allow you to start building your credit history (google definition).
   a. i.e. Discover – has a student credit card. If you just starting out this could be very beneficial because you'll have a better chance of getting approved for a credit card and you may receive a lower APR (Annual Percentage Rate - interest rate). You may also receive rewards and less fees. It's also a regular credit card so it's unsecured, but they do also have secured credit cards.

d) Authorized User = You can speak to your parents or guardian.
   a. Your family member can put your name on their credit card, becoming an "Authorized User," the account would report to your credit report and your family members credit report.
   b. You are not legally responsible to pay the account back, as long as you or your family member make monthly payments you'll gain credit history. Used responsibly you can generate a strong credit history without having to apply for a credit card.
   c. You would need to speak to your family and get their approval.

e) Personal Savings Loan = reports as an installment loan or a regular unsecured loan. It's a small loan that you build a savings account and generate payment history.
   a. i.e. If you create a $500 savings loan, it will be reported on your credit report as an installment loan. You'll pay $25 a month as a monthly payment for the term on the loan. For example it would take 20 monthly payments to reach $500. Once you reached $500 in total payments you would be refunded $500.
   b. The goal is to generate payment history and build your credit score.
   c. This is a last resort if you're having trouble getting approved for a credit card, or if you currently have bad credit and want to start building your credit score.
   d. Self Lend –google this company (personal savings loan) and check out the reviews.

Everyone Starts at a different place… Here are the different starting points.

- You're either starting from A,B, or C….
    - I. Point A – You've never had a credit card, personal loan, student loan, or collections debt on your credit report. You're starting at zero.
        - i. You would want to apply for unsecured credit card or ask your family to become an authorized user on their credit card.
    - II. Point B – You have student debt and or might also be an authorized and you're looking to apply for your own credit card.
        - i. You would want to apply for unsecured credit cards and may have to apply for a secured credit card if you are having trouble getting approved.
        - ii. Student loans have a major impact on credit. If you miss an student loan payments that could hurt your credit score, as well as, the amount of debt could negatively impact your credit score. If that's the case you'll need to apply for a secured credit card.
        - iii. You could become an authorized user to diversify your credit report that would help your credit score.
        - iv. If you can't become an authorized users or get approved for credit cards you'll need to apply for student credit and a secured credit card.
        - v. Your last resort would be to build up your credit score using a personal savings loan.
    - III. Point C – You've had credit before and it didn't go well the first time, so now you're trying to rebuild your credit score.
        - i. You'll want to apply for a secured credit card or personal savings loan to build your score over time.
        - ii. You can also as a family member if you can become an authorized user on their credit card.
        - iii. I would suggest seeking counsel or doing research online to learn how to build your credit. You can also ask us for help.
            1. Credit Karma and Experian are great websites to learn more information.

Tips on maintaining great Credit:

1. Always keep your utilization below 30% of your credit limit on your credit card.
2. Don't miss any payments – pay the minimum payment instead if you need to.
3. After 6 to 8 months call your credit card company and ask for a credit limit increase. You can also increase you credit limit on the creditor app or on their website via online.
    a. You can do this every 6 to 8 months.

4. Use your Credit card instead of your Debit card and pay the credit card off using your debit card. Do it immediately so you don't fall behind or get over extended with your credit card. That will build credit history. Your debit card does not report payment history (unless it's a new special credit that has that available-rare).
5. Go slow, build your savings account and your emergency fund. You don't want use your credit cards if you don't have money in your regular Bank Account to pay for your credit cards. That's how you end up hurting your credit score and creating debt.
6. Download the Credit Karma app and the Experian App so you can monitor your creditor scores and credit history
7. When you're not looking for new credit or trying to get approved for a loan put a credit freeze on your 3 credit bureau credit scores; TransUnion, Equifax, and Experian. A "Credit Freeze," will keep you safe from identity theft and from anyone taking credit cards out in your name. A credit freeze is free and doesn't harm your credit score. It's also accessible from the Credit Karma App and Experian App, as well as, you can call each credit bureau to place the credit freeze manually.
8. Always make your monthly payment before or on the day of your payment date. DO NOT MISS PAYMENTS.
9. Don't spend above your means. If you can't afford something with the cash in your bank account, don't buy it with your credit card. Make sure you can afford what you are buying. You don't want to over extend yourself and fall behind on payments because of your credit card APR (interest rate).
10. Make responsible money decisions.