

Establishing Credit

How to get Good Credit at a Young Age

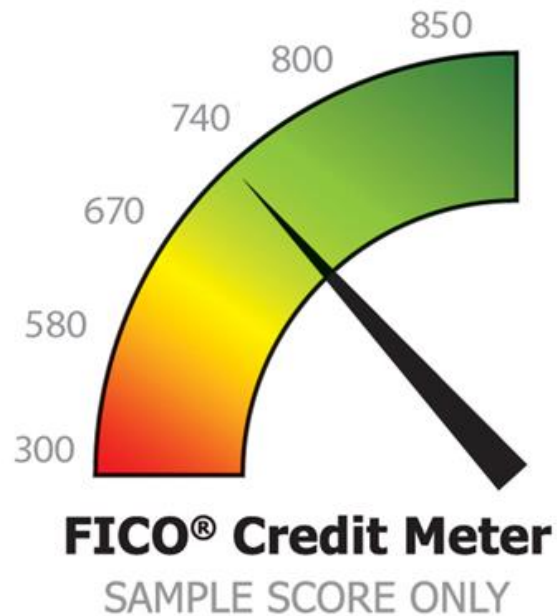


MERIWESTSM
CREDIT UNION

UNDERSTANDING CREDIT



What is a FICO Score?

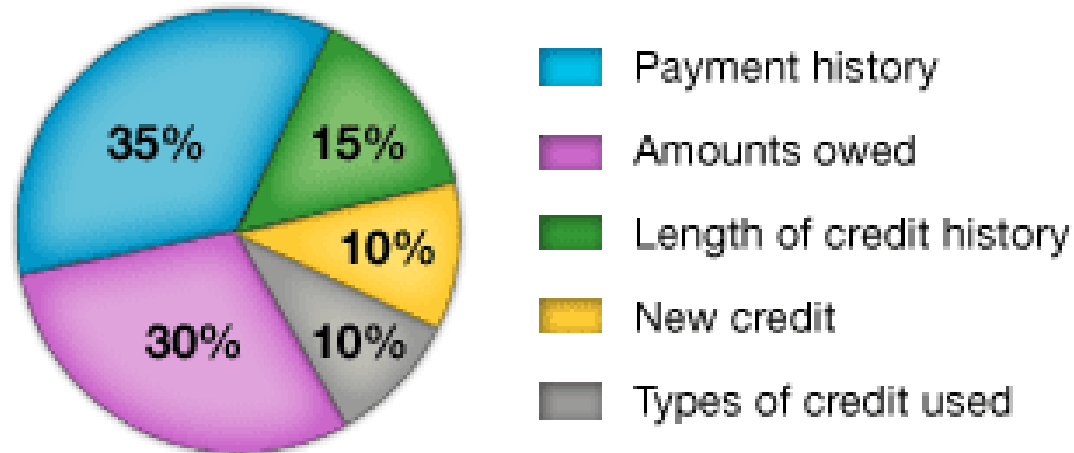


FICO Score

- Stands for Fair Isaac Corporation
- The largest and best known of several companies that provide software for calculating a person's credit score
- This is a standard credit score
- Uses information from your credit report to help determine your credit worthiness
- Typically used by most financial institutions and dealerships

What makes up your FICO Score?

How a FICO Score breaks down



What makes up your FICO Score?

- **Payment History 35%** – How often do you pay your bills on time? Late payments hurt your score.
- **Amounts Owed 30%** - How much debt do you have in relation to your overall limit? Low debt and high limits is what you are after.
- **Length of Credit History 15%** – How many years have you had credit? The longer the better.
- **New Credit 10%** – How often do you apply for new credit? Too many inquiries can hurt your score.
- **Types of Credit Used 10%** – What types of credit do you have? Secured vs. Unsecured, credit cards vs. bank loans, etc.

Understand your Credit Card Limit

- Your limit is the maximum amount of money you can charge to your credit card
- Your first cards will have limits from \$200-\$2,000
- Don't get sucked into spending lots of money just because you have a high limit
- Your limit is something you should be afraid of, not mesmerized by
- Never charge your card to the limit unless it is an emergency

Know about Monthly Payments

- If you don't use your card, you won't have to make payments
- But if you do use your card, you'll have three options:
 - Pay the balance in full
 - Pay an amount smaller than the balance
 - Pay the monthly minimum
- Only paying the minimum will make your credit score worse

Know you Pay Interest on Credit Cards

- Interest is a small fee that the lender charges you for the privilege of borrowing money
- High interest rates are bad
- For example – If your credit card has a 10% rate:
 - If you charge \$500, you still have to pay \$500 back
 - Plus \$50 in interest so the total is \$550
- Look for low-APR (Annual Percentage Rate)

Know your Credit Utilization

- Credit utilization is a fancy term that is actually pretty easy to understand
- Also known as “Capacity” or “debt to limit ratio”
- It’s a relation of how much debt you owe to how much total debt you can carry
- Example – If your limit is \$600 and your balance is \$300, your utilization is 50%
- Industry experts recommend no more than 30%

Use your Credit Cards Wisely

- Use your credit cards for only items that you can afford
- If you purchase things you can't afford, you will have trouble paying off your balance
- If you have trouble making your payments, your credit score will go down
- If you pay off your balance in full every month, you'll have a great credit score

Pay your Credit Cards On Time

- Pay your credit cards on time EVERY month
- Memorize the due date for your card
- Always pay at least part of your bill by that date
- Late payments will hurt your credit score

HOW TO GET GOOD CREDIT AT A YOUNG AGE



Open Bank Accounts

- Ask for parent's help if under 18
- Hard to maintain good credit and pay off credit cards without a bank account
- Open both a savings and checking
- Put money you want to save for a rainy day or for an investment into the savings
- Put money you will use to pay off your debt into the checking
- Balance your checkbook – **Prevent Overdrafts!!**

Sign up for a Secured Credit Card

- Great option to establish credit
- You need to have a steady source of income to qualify for a credit card
- Works like a collateral-secured loan – you give the credit issuer a certain amount of money and in turn they give you a credit card
- Due to the “security deposit” these are often the easiest card to get
- May still ask for evidence of your financial history – Are you paying your bills on time?

Make small, Manageable Purchases

- To get a good credit history, you need to use your credit...wisely!
- Make small purchases...groceries, meals, etc.
- Track spending carefully and never let it get out of hand
- Good rule of thumb – don't spend any more than about half of your available credit
 - Most financial experts agree...less than 30% is best

Credit Card – Good Habits

- Having lots of outstanding debt can impact your credit score – even if you are making your payments
- Once you start getting bills for the credit card, pay each one off in full as soon as you can
- Start establishing a history of prompt repayment
- Future creditors love this!
- It proves you're reliable and won't spend more than you can afford

Obtain an Unsecured Credit Card

- After a period of responsible spending and paying back your bills with a secured card
- Now you should qualify for an unsecured (ordinary) credit card
- Sign up for one with same company as your secured card (if possible)
- Consider one (no more than two) store credit cards

Apply for a Loan on a Car

- Must be at least 18
- May require parents become co-signers, but if you have proven yourself to be responsible...may not be necessary
- Don't just buy a car to establish credit
- Paying a loan on a car will end up being more expensive in the long run than paying with cash

KEEPING YOUR CREDIT SCORE HIGH

Credit Score

- Excellent
- Average
- Poor

Make all Payments On-Time

- Perhaps the single most important thing
- Pay back all your credit card bills by their due dates
- Great way to build credit in the long term
- Missing payments or making only the minimum payment makes it appear as if you can't afford to maintain your current credit level
- This can make it difficult to get more credit in the future

Don't Let ANY Bill go Delinquent

- It's not just about your credit card bills
- Ordinary expenses like rent, utilities, etc. are also important to your credit score
- These vendors don't regularly report to credit agencies
- If bill becomes delinquent, they will refer you to a collection agency
- This will impact your credit score

Know your Rights as a Consumer

- Knowledge is power
- Consumers have a wide range of legal rights and protections
- Knowing your legal protections can make it easier to build healthy credit and avoid common pitfalls
- Example: Consumers have legal protections against credit card companies that attempt to mislead them or hide information from them
- Visit:
 - [FederalReserve.gov](https://www.federalreserve.gov)
 - [FDIC.gov](https://www.fdic.gov) or [NCUA.gov](https://www.ncua.gov)

Check your Credit Reports Yearly

- You can legally request one free credit report per year from each major report agency
 - Experian
 - Transunion
 - Equifax
- Can help you keep track
- Alert you to any negative factors
- Visit: www.AnnualCreditReport.com
- If you find an error, contact the credit issuer immediately

Keep in Contact with your Credit Issuer

- If you have questions or find mistakes, don't hesitate to contact them
- Contrary to many people's first instinct, they should be the first person you call if payment becomes difficult
- They want you to pay them back
- If you've been responsible so far, they are often willing to forgive and/or help work out alternate plans

KNOWING WHAT TO AVOID



Don't Confuse Credit Cards with Debit Cards

- They look almost identical
- Debit cards don't operate on credit
- When you make a purchase, the money comes directly out of your checking account
- You can't use a debit card to build credit

Don't take out a Bank Loan to Establish Credit

- Paying off a loan on time is good for your credit
- Loans require you to pay interest so it is a waste of money if it is only used to establish credit
- Credit Cards are a smarter way to build credit
- You can pay credit cards off in full without incurring interest
- For major purchases (homes and cars), loans are unavoidable

Don't Open More than you Need

- Having a few manageable credit cards is a good thing
- Having too many can be a VERY bad thing
- The more you have, the harder it is to keep track of
- Worse still, if you get behind on one, it is easier to use one card to pay off another
- You can quickly find yourself in a financial “death spiral” that is very hard to get out of
- Too many is a “warning sign” and can lower your credit score

Don't get Hooked into Credit Repair Scams

- There are ethical credit counseling agencies available
- Some “bad apples” exist and take advantage of consumers
- Promise a “clean slate”
- If it seems “miraculous” or “too good to be true”...is usually is
- Here are some “danger signs”
 - Agencies that make you pay them before they do any work for you
 - Agencies that tell you to dispute things you know are correct
 - Agencies that tell you not to contact your creditors directly
 - Agencies that tell you to lie to creditors

TIPS



Tips

- Start with something small and work your way up
- Don't worry, as long as you have a little bit of good credit, you will be fine.
- After 6 months your credit history will start to build and your score will continue to climb

WARNING SIGNS



Warning Signs

- Not making successful payments on all accounts
- Being at or near your credit limits
- Don't go overboard on credit cards and loans
- They can help with your credit history, but only if you pay them on time!

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Q & A

Thank You!



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