



FINANCIAL EDUCATION

Intro to Credit

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WHAT IS CREDIT?

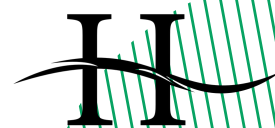
Credit lets you “buy” goods or services before you actually pay for them, because you’ve proven that you can be trusted to pay in the future.

WHY IS CREDIT IMPORTANT?

Having good credit is important, because it’s used by lenders to decide to give you any type of loan, from big purchases like houses and cars to credit cards, cell phone contracts, renting an apartment and even getting a job.

WHAT SHOULD MY CREDIT SCORE BE?

Credit Score	Rating	% of people	Impact
300-579	Very Poor	16%	Credit applicants may be required to pay a fee or deposit, and applicants with this rating may not be approved for credit at all.
580-669	Fair	17%	Applicants with scores in this range are considered to be subprime borrowers.
740-779	Very Good	25%	Only 8% of applicants in this score range are likely to become seriously delinquent in the future.
670-739	Good	21%	Applicants with scores here are likely to receive better than average rates from lenders.
800-850	Exceptional	21%	Applicants with scores in this range are at the top of the list for the best rates from lenders.



BEST WAYS FOR TEENS TO BUILD CREDIT

- Become an authorized user on a parent's credit card
- Get a student credit card of your own
- Get a job to have proof of income
- Consider a credit builder loan
- Start paying a few utilities at home (add your name to the utility bills)

BEST PRACTICES FOR MANAGING CREDIT FOR TEENS

- Spend within your means – don't spend money you can't pay back
- Treat your credit card like a debit card – spend only the money you have in your bank account and pay it off in order to build credit
- Set certain places where you will use your card – example only for gas and food
- Set a day of the week you will review all your payments – example, every Friday pay off all debt / payments
- Make payments before the due date, on the due date, but never after!

HOW LONG DOES IT TAKE TO BUILD CREDIT?

Building credit takes time, but if you start early and practice good habits, you can establish a solid history with just 6 to 12 months of on-time payments.

KEY TERMS

- **Interest rate:** a percentage of the amount owed and that is charged to the borrower
- **Credit limit:** the total amount of money that can be borrowed
- **Credit score:** a three-digit number that indicates to lenders how likely a borrower is to repay debt, and that's calculated based on credit history
- **Credit report:** detailed information on someone's credit history
- **Minimum monthly payment:** the lowest amount someone can pay on a loan or credit card each month to maintain a good credit standing



WHAT IMPACTS CREDIT HISTORY?

Payment history: Payment history is one of the biggest influencers on your credit scores. Payment history accounts for approximately 35% of most scores. A history of on-time payments is good for your credit scores; while missing payments has negative consequences.

Credit utilization: The second biggest influence on your credit scores is credit utilization. Your utilization rate is the ratio between the total balance you owe and your total credit limit on all your revolving accounts. It affects 30% of your scores' totals. A lower utilization rate results in better scores. Maxing out your credit cards or leaving part of your balance unpaid can hurt your scores, because it increases your utilization rate.

Length of credit history: The length of credit history is particularly important for young people. Unless you added your child as an authorized user on your credit card, he/she most likely won't have a lengthy credit history to back up a credit application. Credit history accounts for 15% of most scores.

Mix of accounts: A smaller percentage (10%) of your scores comes from your mix of credit accounts. Having a good history with different types of credit, like revolving and non-revolving credit, may help improve your credit scores.

New credit inquiries: When you open a new line of credit, creditors will make an inquiry that stays on your report for two years. New credit inquiries account for the last 10% of your credit scores. While a few of these inquiries aren't too impactful, it's best to avoid continuously applying for new credit. It's also important to note that soft inquiries are not counted towards this.



TYPES OF CREDIT

Secured lines of credit: Secured lines of credit are those backed by collateral. As a result, if the borrower doesn't repay as agreed, the lender can repossess the collateral. Examples of this include car loans and home mortgages, where the collateral is the car or the home.

Unsecured lines of credit: Unsecured lines of credit are those without a form of collateral. On an unsecured line of credit, the lender assumes a much larger risk and these types of loans usually carry higher interest rates. Most credit and charge cards are unsecured lines of credit.

Revolving credit: Revolving credit is a type of credit that can be used repeatedly (with certain limitations), as long as the account is open and payments are made on time. Credit cards, lines of credit and home equity lines of credit are all examples of revolving credit.

Non-revolving credit: Non-revolving credit is credit that can't be used again once it's paid off. Student loans are a type of non-revolving credit that you or your child may be familiar with.

REPAIRING CREDIT MISTAKES

Building credit isn't always smooth sailing. Watch for signs that you might be struggling financially. Ruining your credit can cause you to struggle finding a place to live, a job, and can even affect your future family's lifestyle. It's best to seek help early. There are a few ways you can find help if things have already taken a turn for the worse, including:

- Co-sign with a parent for a loan
- Consider expenses that you could eliminate
- Credit counseling

Sources

Experian – FICO Credit Blog <https://www.experian.com/blogs/ask-experian/credit-education/score-basics/what-is-a-good-credit-score/#:~:text=For%20a%20score%20with%20a,fall%20between%20600%20and%20750.>

American Bankers Association – Youth and Money <https://www.aba.com/advocacy/community-programs/consumer-resources/kids-money>

