



What is Credit? How does it Work?

You may be wondering, what is “good credit” and what is “credit” exactly? Credit is an agreement between two parties that one party (party #1) will borrow a certain amount of money and then pay the other party (party #2) back the money often times with interest. A credit score is a number that informs creditors (aka party number #2) what the creditworthiness is of a borrower (aka party #1). Based on your worthiness score, you can receive benefits or disadvantages. Decide that you won’t use credit at all and avoid the whole worthiness game? Remember this “NO CREDIT IS JUST AS BAD (SOMETIMES WORSE) THAN BAD CREDIT.” You will still receive all the same disadvantages as someone with bad credit. Credit is something that is almost unavoidable unless you are rich and losing money doesn’t matter to you. The scale to determine good credit is in the photo below. These numbers change slightly depending on the source but in general that is the scale. And don’t be fooled “Fair” credit is barely any better than Poor credit. You are still extremely limited.



How is this “worthiness” reported? There are 3 credit bureau’s each with very unique scores and depending on what you are trying to purchase they alter the scores (but often not by much). The 3 major bureau’s are: **TransUnion, Equifax, and Experian**. Experian typically gives the highest credit scores ;) So everything, reports to these 3 bureaus. Almost all the financial activity you have even if it isn’t directly involving credit reports to one or all of these bureaus. For example, you purchase a cell phone with a company and have a monthly bill. For whatever reason you stop paying your bill, the

phone company will report the missed payments (normally starting at 2 or 3 months) to one or more of these three bureaus and your credit score will go down.

There are often errors on these reports so it best to check them often. You can receive one free full report from each bureau once a year but there are plenty of free sites that will allow you to check your reports monthly. I suggest getting on a free site and monitoring your credit each month through an app on your phone. This is one of the best ways to catch identity theft.

Credit Tips

- ✓ Your Goal should be a 750 credit score
 - And I fully believe you can do it!
- ✓ If you don't have it don't buy it!
 - If you don't have the money in your account, don't buy it. Credit is not an extension of your income or bank account. The best rule of thumb is to only use it in emergency situations if you don't have enough money to cover it.
- ✓ Use your credit card on everyday monthly expenses and pay it off in full when the bill comes
 - This is the best way to build credit. Believe it or not having a credit card and not using it does little for your credit score. Creditors want to ensure that you are able to pay lenders back so unfortunately in order to show this you have to use it. I suggested buying little things like candy, or gas every month and paying it off when the bill comes. Do not exceed any normal expenses you'd spend money on and don't buy things you can't afford.
- ✓ Pay the Bill off in full every month
 - If you do this you avoid paying interest. On some cards you can earn rewards for purchases or even cash back! This is the best way to avoid debt.
- ✓ Don't look at credit as an extension of your income
 - This is what gets most people in trouble. It is not free money! It comes at a high cost.
- ✓ Use Bank Cards
 - The best cards to help build credit and the ones with the highest regard are bank credit cards.
- ✓ Start with a Secured Credit Card, Student Credit Card, or as an Authorized User
 - Secured Credit Cards are great starting points because they will not negatively affect your credit. You put money down as a deposit and whatever you put down is your limit. If you fail to pay the card. The creditor simply uses your deposit to cover it and does not report it negatively to the credit bureaus. It is a great way to practice before having negative consequences for abusing credit. Also, it is a great way for parents to start their children with credit and a great way for students to

show their parents they are responsible. They also have Student Cards that are designed specifically for college students. Another great way to build credit for young adults is to be added to a parent's (with good credit history) credit card as an authorized user. Depending on the card (make sure the credit card reports authorized users to all three credit bureaus) the lender will report on the authorized users credit as well. The authorized user will be issued their own credit card under the account and be able to make purchases, however, if you're a parent you just wouldn't give your child the card.

- ✓ **Keep all balance under 29% of the Limit**
 - I suggest 20% to give yourself a little room. Once you are above 30% this part of your score goes from "good standing" to "fair standing." FYI if you want "excellent standing" stay below 9%.
- ✓ **Pay the bill before the bill is due**
 - This will ensure you won't have any late payments! Or use autopay.
- ✓ **Avoid all collections**
 - But keep in mind that if you have a collection under 100\$ it will not affect your credit score. It is considered "nuisance or petty debt"
- ✓ **Pay your student loans and/or get on a payment plan that works for you**
 - Derogatory student loans have major effects on your credit score!
- ✓ **Don't have more than 3 or 4 credit cards at a time**
 - It can negatively affect your score
- ✓ **Avoid store credit cards**
 - Unless you receive amazing benefits (like Macys actually saves people a lot of money if they shop there a lot). It's best to avoid them, they are limited and rarely have deals as good as bank or airline cards. Also, they don't help your credit much.
- ✓ **Keep in mind some credit cards have annual fees and some don't. Do a lot of research before applying for any card**

Hurdling Through Finances

Hurdling Through Finances was created to plant the seeds to financial health and wealth for young adults. While the focus is on student athletes, hurdling through finances is beneficial for all high school and college students as well as adults. Topics covered include *student loans, credit health, stocks, bonds, money markets, Roth IRA's to things as simple as a checking and savings account*. Hurdling Through Finances helps young adults gain a general understanding of how to manage their personal finances and helps them avoid the financial mistakes most young adults make.