



Credit Matters

Part of BestPrep's Financial Matters Program

Why does credit matter?





**Let's take
a quiz!**

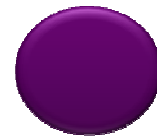


Question 1 of 5

How many credit cards does the average U.S. household have?



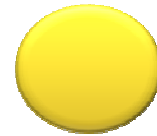
1



5



3



10

Question 2 of 5

How much credit card debt does the average U.S. household have?



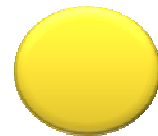
< \$1,000



\$5,000 - \$10,000



\$1,000 - \$5,000



> \$10,000

Question 3 of 5

According to an Experian Consumer Research study, what percent of income does the average family use for monthly credit card payments?



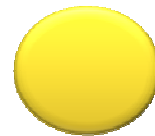
10-15%



20-25%



15-20%



25-30%

Question 4 of 5

What percent of families only pay the minimum monthly payment of their credit cards?



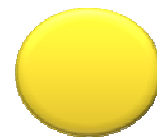
10-20%



30-40%



20-30%



40-50%

Question 5 of 5

What is the APR (annual percentage rate) on the average credit card?



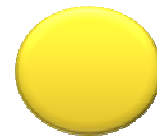
4%



24%



14%



34%

Definition of Credit

Receive money today with a promise to repay in the future.



The “Three C’s” of Credit

Character

Your reputation, credit history and job stability.

Capacity

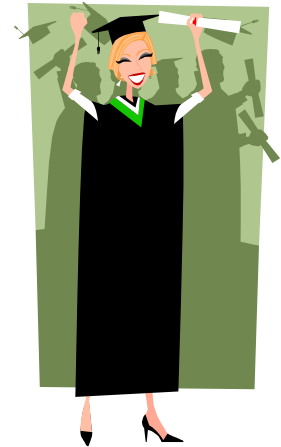
Are you able to repay the debt based on your income?

Collateral

The property used to secure the loan.

Types of Credit

- Home loans
- Car loans
- Business loans
- Student loans
- Credit cards



Paying Off Credit

George buys an iPad for \$499.00 with his Visa card.

The minimum monthly payment is \$10.00.

The interest rate is 20%.

If George only pays the monthly minimum, and is never late, how long will it take George to pay off his iPad?

How much will he pay in interest?



108 months (9 yrs)

\$578.97

(total payment =
\$1077.97)

Credit Cards

- Rates
- Fees
- Benefits



The details for each credit card can be researched online.

Having a Credit Card

Benefits:

- Convenient
- Can help in emergencies
- Can offer protection against theft
- Offers payment almost anywhere in the world (including the Internet)
- Builds your credit history



Having a Credit Card

Drawbacks:

- Can make purchases more expensive
- Can encourage overspending
- Can cause credit damage
- Requires careful monitoring and record keeping



Let's Review

What are the Top Four Criteria When Deciding on a Credit Offer?

- 1. What is the interest rate?**
- 2. What is the payment amount?**
- 3. How long will I be in debt?**
- 4. What will the total cost be?**



What is a Credit Report?



It reflects the history of your borrowing and payment practices for a 7-10 year period

Credit Report

- Identifying Information
- Credit History
- Public Records
- Inquiries



Applicant Information

Name: Jane Doe SSN: 392-72-8573 Current Address: 309 Cedar Street Santa Cruz, CA 95060	Former Address: 309 Cedar Street Santa Cruz, CA 95060	Report Number: YYYYYYYY Report Date: September 1, 2012
Date of Birth: 1950	Phone Numbers: (831) 888-8888 Spouse: John	Employer(s): Town Financial Address: CA Report Date: 09/2012 Designation: Personal Assistant

Credit Items

ABC Companies Inc Address: 1100 Main Street, Buffalo Account Number: 14545872 Account Status: Past Due 180 days Account Type: Installment Terms: 14 months Original Amount: \$658	Account Opening Date: 5/2002 Reported Since: 6/2002 Recent Balance: \$600 Last Payment: \$45 Date of Status: 08/2012	Central Valley Commercial Corp Address: PO Box 469, Prather CA
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Accounts in Good Standing

United Auto Credit Corporation Address: 18191 Von Karman Avenue Irvine, CA 92612-7102	Account Number: 564789854 Account Type: Installment Date Opened: 1/2011 Date Closed: 12/2011 Date Paid: 12/2011 Account Status: Paid in Full	Original Amount: \$15,459 Last Payment: \$0 Recent Balance: \$1,150 Terms: 22 months High Balance: N.A Monthly Payment: \$175
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Inquires for Your Credit

Union Bank of California Address: 445 S. Figueroa St. Plaza Level Los Angeles, CA 90071	Date of Request 08/15/2004 Purpose - Financial Transaction Inquiry Type - Individual
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Remember:



- All information remains on your credit report for 7 years (good and bad)
- Bankruptcies remain on your report for 10 years
- Check your report for errors

679

750

800

YOUR CREDIT SCORE

540

700

650

What is your credit score?

- A number that represents your 3 “C”s
- A score that ranges from 501-990
 - Super Prime (901-990)
 - Prime (800-899)
 - Near Prime (700-799)
 - Subprime (600-699)
 - Deep Subprime (501-599)



- Higher score = better interest rates

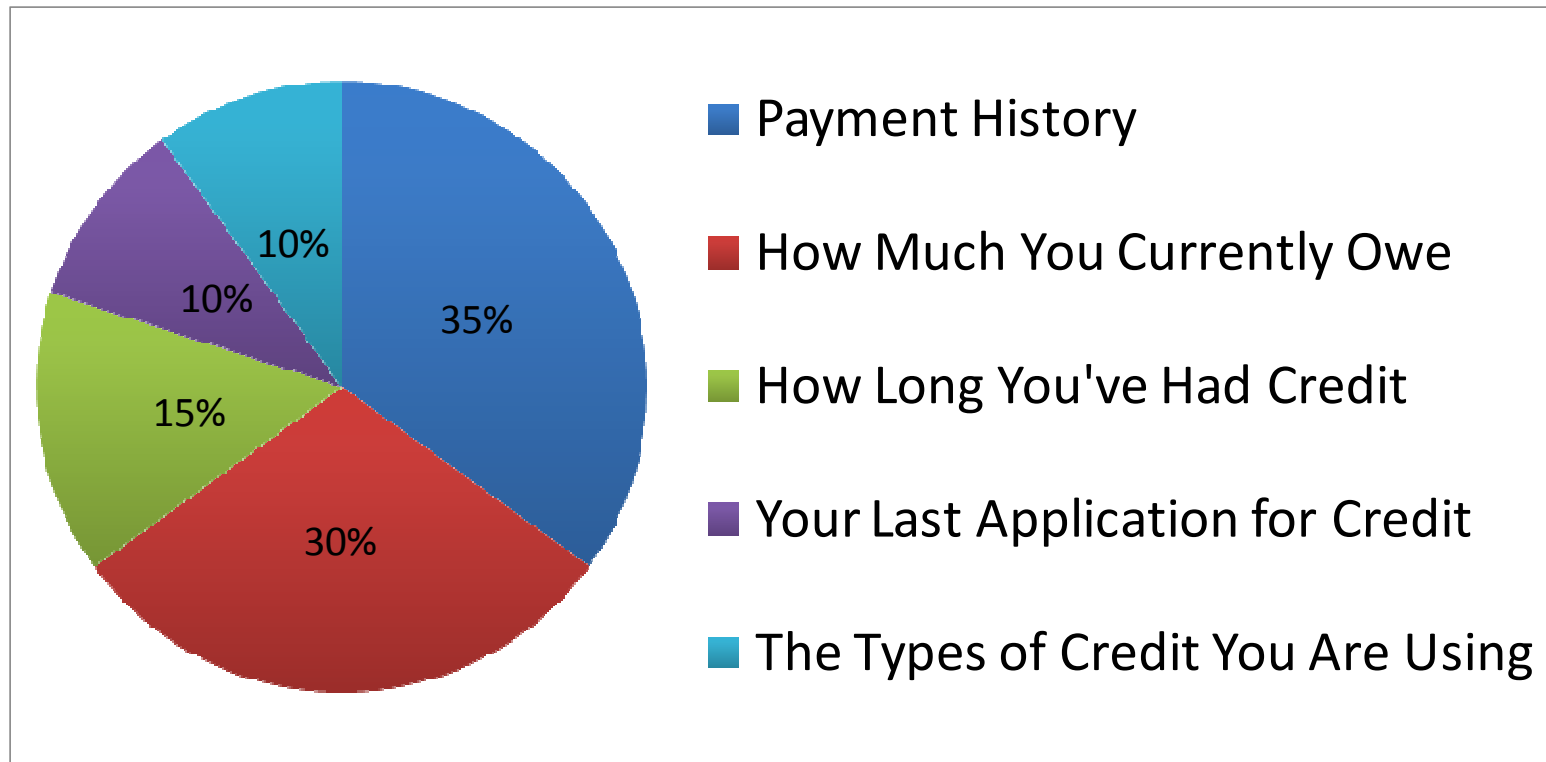
What is a good score?



**The national average credit
score is:**

736

Factors that affect your credit score



Why does all of this matter?



Your credit score is your reputation

It affects your future options and choices.



Credit scores impact:

- Employment offers
- Auto insurance rates
- Home/apartment rental approval
- Loan interest rates
- Access to loans



**So how do
you take
control?**



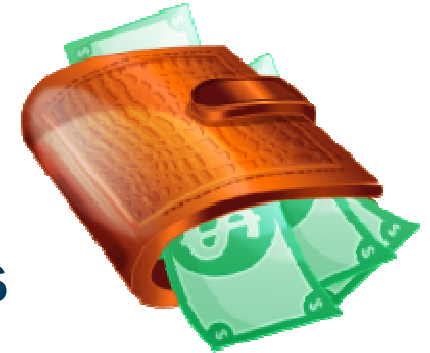
How to obtain a copy of your credit report

- One FREE report each year
- Visit www.annualcreditreport.com
 - Experian
 - Transunion
 - Equifax
- Phone and mail requests also available



Tips to build your credit score

- Pay your bills on time
- Keep your balances low on credit cards
- Maintain long credit relationships/accounts
- Apply for and open new accounts only when necessary
- Pay off debt, don't move it around



Tips to re-build your credit score

- Pay off past due accounts
- Work with credit bureau and creditors to make sure your report is accurate
- Do not close all your credit cards
- Keep your credit cards active



Seek help if you need it



- **Communicate with your creditor if you are having financial difficulties; see if a temporary payment plan can be arranged.**
- **Work with a nonprofit agency to set up a debt repayment plan if you're overloaded with high interest debt or falling behind in payments.**

Who controls your credit score?



You!

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Thank You!

BestPrep gratefully acknowledges the financial and volunteer support provided by the Foundation for Financial Planning and the Financial Planning Association of Minnesota to offer the Financial Matters PowerPoint series of Money Matters, Budgeting Matters, Credit Matters and Investing Matters to the students and teachers of Minnesota.

