Name:
Date:

Credit Cards: Rules of Thumb

Rule 1: Never carry a credit card balance.

- When you use your credit card to purchase items, you will receive a statement at the end of each month that will need to be paid within a certain amount of time.
- If it is not paid, you are going to have to pay interest, which means you are paying more than the cost of the items you already purchased.
- When you "carry a balance," it means that you have not paid off all of your purchases one month. When you pay your credit card bill, you should go back to owing $0.
- Always keep track of what you are spending on your credit card, and make sure that you can pay for it.

Rule 2: Always pay your bills on time.

- You always need to pay your bills on time.
- If you don't, you will end up paying more money than you spent and you will hurt your credit score.
- Be diligent about checking when your bills are due and make sure you set calendar reminders to pay them once they are due!
- Credit card interest is brutal! Avoid it!

Credit Scores

1. Why are they so important?
   - You need a good credit score in order to make major life purchases that require loans (cars, homes, student loans, etc.)
   - Imagine that you are about to purchase your first car: the better your credit score, the better the deal you will get on your loan!
   - Most people can't pay out of pocket for a car, which might cost $20,000. So you need to go to a bank to ask for a loan to buy the car.

- If you have a low score, you may have to pay an interest rate 5 times as much as what you would with a high credit score.
    - Example: For a $20,000 car, there can be as much of a $4,814 difference between a good credit score and a bad credit score.
- Note: There is absolutely no way for you to hide your credit score. Any institution can access it and determine whether you are responsible or not, and can offer you a loan based on this information.
- Credit scores are a way for banks and other institutions to measure how reliable you are in paying back your loans and paying your bills.

2. Where do I get a credit score?

- Everyone has a credit score. Companies keep track of this information so that when you go to ask for a loan, the lender (for example, the bank) can determine how responsible you are.
- You can't avoid a credit score, and you also can't hide it.
- You should make sure that you make your credit score as high as possible.

3. What are credit scores composed of?

- 35%: Payment History
    - Do you have a history of paying your bills and your loans on time?
    - Any time you want to take out a loan, a lender will want to know whether you've paid past accounts on time.
- 30%: Amounts Owed

- How much debt do you currently have? (How many loans do you currently have, and how much do you owe to all of the lenders?)
- The lower the amount owed, the better!
- This includes your credit card balance: If you are carrying a card balance and still owe the credit card company money each month, you will have a lower credit score.

- 15%: Length of History
  - How long have you been building credit?
  - In general, the longer your credit history, the higher your credit score will be.
  - This takes into account the age of your oldest account, the age of your newest account, and the average age of all of your accounts.
  - They will also look at how long it has been since you have used a certain account.

- 10%: New Debt
  - Have you taken on debt recently?
  - If you opened several credit accounts in a short period of time, it will hurt your credit score!

- 10%: Types of Debt
  - What types of debt do you have?
  - Examples: mix of credit cards, retail accounts, installment loans, finance company accounts, and mortgages.
  - The more varied, the better, but remember to only take on credit (i.e., take out a loan) when you absolutely need to.

Let’s Put It All Together

Credit scores may seem complicated. On the one hand, a good credit score shows that you’ve taken out a loan and have paid it back. But on the other hand, you can't take out too much or your credit score will suffer!

The key guideline is to only take out a loan or use credit when you absolutely need to and when you are able to pay it back on time.

Think of it this way:
If you use your credit card wisely by never using it to buy something you can't afford and if you pay your bills back on time, then you will have a high credit score.

If you have a high credit score, then you will then have a low loan interest rate if you need to take out a loan for a house, a car, or something else.

If you get a low interest rate, you will have more money in your pocket!

Compare this to:
If you use your credit card and you do not pay your bills back on time, then you carry a credit card balance.

If you carry a credit card balance, you will have a low credit score. When you go to take out a loan, you will have a high interest rate and you will end up with less money in your pocket!