



Learning at Your Fingertips

Building Credit 101



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Credit Score

- 😊 Excellent
- 😐 Average
- ☹️ Poor

Overview

A good credit score is an essential part of getting good loans and evening the playing field with lenders. The average FICO credit score for Americans is roughly 720, meaning that half of Americans have a worse credit score and half have a better score.



Overview

The only way to establish good credit is to actually to start buying on credit. This is the only way to establish a credit history which reveals your ability to pay for things that you buy or use.



Getting Started

1. Having your bills in your name will not impact your credit. This is often a misconception in building positive credit. Major utility companies and phone companies only report to credit agencies when payments are not made.



Getting Started

2. Always pay bills on time. Pay each credit card bill in full as soon as you receive it, so you do not establish yourself as a 'late' payer. It may be necessary to obtain a "Secured" credit card if your credit scores are already low or non-existent. Do your homework and research as some secured credit card companies check credit before approval and will actually decline you.



Getting Started

- Set up **automatic payments** with your credit card company and/or bank. Most credit cards will allow you to set up automatic withdrawals from your checking account every month to pay for your credit card. This way, you won't risk forgetting about your payments and registering as a late payer, dropping your credit score.



Getting Started

Automatic payments usually let you specify whether you want to:

- Register to pay the **monthly minimum**. Credit cards will force you to pay a small amount every month or risk a penalty.
- Register to pay the **balance** on the credit card. The balance on the credit card, or how much you owe, will usually vary from month to month. Make sure that you avoid an overdraft when doing this.
- Register to pay a **set amount** every month. This set amount can be somewhere in between the monthly minimum and the balance payments.



Getting Started

Realize that this method might not work for everyone; if it doesn't, follow another way of establishing credit.



Getting Started

3. Get a credit card reference. This is also called a secured credit card. This is a program which many major banks will have, where you pay a deposit on a credit card (usually equal to the limit) in order to get a card even when you have less than perfect credit. Using this starter card, you can build credit.



Getting Started

- Just make sure that the card is reported to the major credit reporting companies.



Getting Started

4. Keep a job. Many places asking for your credit score will also look at other information, like if you can keep down a job. If they see you're changing jobs every few months, then your credit score won't really be enough to help you: you'll look too risky. Keep down one job for a few years at a time to appear more stable. This will help you with things like getting a mortgage.



Getting Started

- If you appear reliable, they may be willing to forgive a slightly less than ideal credit score.



Getting Started

5. Stay in one place. Much like the above, many places will look at your housing history. If you move too much, you're a risk. However, if you stay in one apartment or house, you seem much more reliable.



Improving Your Score

1. the lowest interest rate and if possible one that offers a cash back percentage on purchases you make. Try not to start a new credit card until you have at least okay credit, because each application counts against your score, as does being denied.



Improving Your Score

- Apply for a **major** credit card, such as Visa, American Express, Discover, or Mastercard. These will help you move into the 700-score territory faster.



Improving Your Score

- If you can't get a major credit card, think about getting a "secured" credit card, which works after you deposit money with an issuing bank. (Essentially, a debit card.)



Improving Your Score

2. Open checking and savings accounts.

Lenders see bank accounts as signs of financial stability and consistent savings behavior. Given this, evidence of continuous use of checking and savings accounts increases your chances that a bank will offer you a credit card.



Improving Your Score

- You shouldn't, however, just open accounts left and right, as this makes you look bad rather than good. Just have more than one and make sure that there's money in each of them.



Improving Your Score

- Alternatively, contact your bank or credit union, open a charge account with them, and deposit a specific amount of money 'into' the account. This is called a pre-paid charge account.



Improving Your Score

3. Keep debt low. It will look better if the bill you are paying at the end of the month is a low one. Keep your outstanding debt as low as possible in order to improve your score even further.



Improving Your Score

4. Ask for help. If you've done a good job of building an okay score and then find that you're very slightly late on a single payment, you may be able to get that late payment taken off your record by asking very nicely. If you have a good history with the entity you were late in paying, they may be willing to take it off if you ask.



Improving Your Score

5. Give it time. Having good credit over a long period of time will go a long way towards convincing lenders that you're a solid bet. Don't rush the process.



Use Credit Cards Responsibly

1. Check your budget. Budget out how much money you have coming in, how much money you'd like to save, and what sorts of things you need to pay for on a monthly basis.



Use Credit Cards Responsibly

- Having a budget is great even if you're not interested in fixing your credit. A budget will allow you to save more money, be prudent about what financial decisions you make, and — of course — fix your credit.



Use Credit Cards Responsibly

- Budget out how much you can *afford* to spend rather than how much you'd *like* to spend. There's a difference. If you set aside \$200 every month for discretionary purchases, a \$600 flat-screen TV will have to wait three months before you can pull the trigger. Don't pull the trigger right away and be \$400 in debt for two months.



Use Credit Cards Responsibly

2. Stick to your budget. What's the good of having a budget if you don't really stick to it? If you say you're going to spend \$120 on groceries every week, don't go over \$120. It's simple to say and hard to do. But it's essential for a good credit score.



Use Credit Cards Responsibly

3. Use a credit card instead of cash to make small purchase you can afford. Make sure that you do not charge more than you can actually afford to pay at the end of the month.



Use Credit Cards Responsibly

- Some illustrative examples: **Do** use your credit card to pay for gas. If your income is \$2,000 per month, and your gas expenses come out to \$140 per month, you should be able to afford to pay off \$140 on your credit card every month.



Use Credit Cards Responsibly

- **Don't** use your credit card to pay for a \$1,500 mattress. If your monthly income is \$2,000, putting a \$1,500 purchase on it right away is a bad, bad idea. You'll be paying it off for several months and could miss a payment.



Use Credit Cards Responsibly

4. Make more than the minimum payment. You should be able to make more than the minimum payment on the card, slowly working towards being able to pay it off entirely. If you can't afford to make more than the minimum payment, you aren't being financially responsible and have taken on too much debt.



Use Credit Cards Responsibly

5. Stay well below your credit limit.

Approaching 70-75% of your credit limit or maxing out your cards frequently will look dangerous and irresponsible to lenders because it often is.



Use Credit Cards Responsibly

Credit cards are a safety net, so leave a little extra room. Just like you wouldn't want an actual safety net the exact same size as your body, you don't want zero room for movement on your credit cards.



Mastering Your Credit Score

1. Check your credit report annually. If you don't know what your credit looks like, it'll be hard to fix it. You can get one free annual credit report through the government-run AnnualCreditReport.com.



Mastering Your Credit Score

When checking your report, make sure you:

- Dispute any additional accounts that aren't yours or that you didn't open.
- Dispute any reports of late payments that were in fact paid on-time.
- Dispute any bankruptcies older than 10 years that are still listed as due even though you settled them in bankruptcy.
- Dispute any negative information older than 7 years.



Mastering Your Credit Score

2. Spread your debt out on several different cards, if possible. Your FICO credit score will improve if you avoid one big balance on a single card and instead have several small balances on different cards.



Mastering Your Credit Score

- This is because the FICO formula looks at the difference between your balances (how much you owe) and your limits (how much you can charge per month). A low balance-to-limit ratio makes for better credit score than a high balance-to-limit ratio.



Mastering Your Credit Score

- Even if you pay your balance, a high balance-to-limit ratio is not ideal. If you spend \$4,000 on a \$5,000 limit, you've got a .8 ratio, which is pretty high. Shoot to get a .1 ratio, which means that you're spending 10% of your available limit.



Mastering Your Credit Score

3. Don't let your credit cards go unused. Don't let your credit cards sit there unloved. If you don't use your credit card at all, your credit score will go down. The credit score formula prefers to see a card that is getting regular use over a credit card that is lying fallow.



Mastering Your Credit Score

4. Make sure your credit is attached to the major companies. You want your information reported to the major credit reporting companies, if possible. These are the ones lenders are most likely to check, so if you only have one credit card and it reports only to a small company, you're in trouble. This is where having more than one credit card or bank account, etc, can come in handy.



Summary

Your credit score is a major key to managing credit and more. Although there are multiple credit scoring methods, FICO scores are most widely used in the U.S. Your credit score indicates your creditworthiness to lenders and creditors, and can also impact your ability to be hired, qualify for auto insurance or rent your next home. It's a long way from the basement to the penthouse suite, but these tips can help you get started.

