Exploring Credit: What to Know Before You Start

MoneyMagnifier Teens GRADES 9-12

Credit allows people to purchase items by borrowing money from a financial institution. This borrowed money is put on **Credit** with the agreement to pay the money back.

In order to receive Credit, you need to show your creditworthiness through your credit history, this can be shown through a **Credit Report** and a **Credit Score**.

Credit Report is a statement that shows your credit activity and current credit situation such as payment history and the status of your credit accounts.

Credit Score is a calculation based on the information in the Credit Report. It is shown by a 3-digit number ranging from 300-850, the higher it is the more likely you will be trusted to borrow money.

Tips for Managing your Credit:

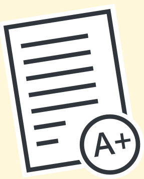
- Make your Credit Payments on Time – Late payments will cause your Credit Score to go down.
- Stay within the 30% Credit Utilization Rule – Don't use more than 30% of your total credit limit. Example: If you have a Credit Card with a limit of $1,000, you should avoid spending more than $300 on that card. (30% of $1,000 is $300.)
- Keep building your Credit History – An example, maintaining a credit card over time gives creditors more information to better evaluate how you manage your finances and credit.

Managing a Credit Card:

- Pay your Credit Cards in Full – By paying off your Credit Card each month, you are avoiding interest accruing on your account and paying more over time.
    - Use it, Pay it Method – Once you use your Credit Card and your statement shows that transactions, Pay off the card for that amount.
- Only spend what you can afford in Cash – By not spending outside of your means, you can limit the amount of Debt you put yourself in.
    - Start Small with Subscriptions – Put your regular monthly subscriptions, already included in your budget, on your credit card. This helps you pay them all at once, keeps your card active with consistent use, and makes it easier to track your subscriptions.
- Check your Credit Card statement monthly – This will help you be aware of your spending and budget.

Comparing Credit Reports to Report Cards

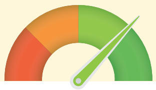
You can think of your Credit Report like a Report Card you receive at school:



Your Report Card shows how well you managed your class assignments throughout the grading period

Your Credit Report shows how well you managed your Credit thoughout your credit history

Each Provide you with a score:
Report Card = GPA
Credit Report = Credit Score



When you manage credit responsibly, it can help you unlock new opportunities, lower your borrowing costs, and improve your chances when it comes to borrowing money in the future.

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