

## Personal Finance Education Curriculum for 18-35 year olds

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For use in conjunction with *Twenties in Your Pocket: A twenty-something's guide to money management*, by Kate Nixon Anania

Available on [Amazon](#).

### Class 4: Credit

**Assigned reading:** Chapter 5 of *Twenties in Your Pocket: A twenty-something's guide to money management* by Kate Nixon Anania

**What is credit for?** Credit allows you to borrow money (at a cost) for things you can't afford to buy outright.

**Discuss** long term financial goals (buy a car, home, education etc.)

**Credit reports:** are a record of your financial history. This is what you should be checking to make sure your identity hasn't been stolen. [www.annualcreditreport.com](http://www.annualcreditreport.com) is the federally endorsed site to check your credit report (not score) through Equifax, Experian or Trans Union. Banks are starting to offer this service too.

This class will check credit reports during class 6 (if over 18).

**Credit scores** tell the banks if you are going to be a good person to loan money to. Your credit score communicates your financial history—do you pay things off on time? Are you a risky bet?

#### What goes into your credit report?

- Any time you took out a loan, paid a bill late or on time, where you've lived, credit card applications, credit inquiries

#### What goes into a credit score?

- 35% payment history
- 30% amount owed relative to the amount you can borrow (this is called a debt ratio)—10-30% is ideal
  - (example: if you have a \$1k credit card limit, try not to owe more than \$300 at any time)
- 15% length of credit history
- 10% new credit
- 10% types of credit used
- No such thing as a perfect credit score- your grandma is going to have better credit than you (probably) because she's been around longer
- Score categories
  - 600 and below- poor
  - 600-674- ok
  - 675-710- good
  - 710 or more- excellent

## Credit cards

- Compound interest (from last class) applies here too, in a bad way
- Think about how much you are really paying for what you buy—is it worth it?
- The best way to use a credit card is to pay it off immediately each month
- Safer for use online than a debit card—and shopping online can save you time and money.
- Ways to improve your credit
  - Automate all your bill payments so you never forget
  - If you're having trouble paying your bills, call and ask for lower interest rates, lower minimum payments—advocate for yourself. If you can't afford the whole bill, pay what you can. \$5 is better than nothing and will help your credit. Paying even a little bit will send your creditors the message that you are paying attention, which will help protect your credit.
  - Get a secured credit card—works like a debit card but it is safer and helps build your credit. Available from Capital One, Discover and Open Sky. It sometimes has fees but that is worth it to be protected if you are afraid of making errors.