

TRANSITION FROM TEENAGER TO ADULT

# CREDIT INTRODUCTION GUIDE



# Introduction: Why Credit Matters

Credit is your financial reputation. It shows lenders, landlords, and even some employers whether they can trust you to handle money responsibly.

## Why Credit Matters:



- **Housing:** Landlords often check credit to approve rental applications.
- **Transportation:** Car dealerships check credit to determine loan approval and interest rates.
- **Jobs:** Some employers check credit reports for jobs involving money handling.
- **Utilities/Phones:** Companies may require deposits if you don't have credit.

 **Interactive Prompt:** Write down one thing you want credit to help you achieve in the next 5 years.

 *(A wavy line starts from the pencil icon and extends downwards, ending with a small arrow pointing towards the bottom of the page.)*

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# GETTING STARTED WITH CREDIT

Types of Credit Accounts:



- **Credit Cards (Revolving)**: You can borrow up to a set limit, pay back, and borrow again. Example: \$500 credit card limit.
- **Loans (Installment)**: You borrow a set amount and repay in fixed payments over time. Example: \$10,000 student loan.
- **Mortgages**: Long-term loans for buying homes.
- **Retail/Store Cards**: Cards tied to specific retailers.

Ways to Start Building Credit:

- **Secured Credit Card**: Requires a cash deposit; good for beginners.
- **Authorized User**: Added to someone else's card to build history.
- **Credit Builder Loan**: Small loan where payments are saved until the end.
- **Paying Bills on Time**: Phone, rent, or utilities can build credit if reported.

 **Interactive Prompt:** Circle the method you think would be easiest for YOU to start with and explain why.



# HOW CREDIT SCORES ARE CALCULATED

Your FICO score ranges from **300-850**. Higher is better.



- **Payment History (35%)**: Pay on time = good; miss payments = major damage.
- **Amounts Owed (30%)**: Also called “utilization.” Use less than 30% of your total limit (10% is best).
- **Length of Credit History (15%)**: Older accounts = stronger history.
- **New Credit (10%)**: Too many applications in a short time = risk.
- **Credit Mix (10%)**: Variety (credit cards + loans) is better than just one type.

 **Interactive Exercise**: Imagine you have a credit card with a \$1,000 limit. Write how much you should spend per month to stay under 30% utilization.



# HABITS THAT BOOST CREDIT

Do These Regularly:



- **Pay on Time**: Even 1 late payment hurts.
- **Keep Balances Low**: Aim for <30% utilization.
- **Limit Applications**: Too many “hard checks” = lower score.
- **Don’t Close Old Cards**: Older accounts give you longer history.
- **Check Your Reports**: Spot errors early.

 Interactive Exercise:



Checkmark two habits you already do, and star two you'll start working on this month.

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# KEY CREDIT TERMINOLOGY

- **APR (Annual Percentage Rate):** Total cost of borrowing each year.
- **Utilization:** Percentage of credit limit being used.
- **Hard Inquiry:** Credit check from an application (impacts score).
- **Soft Inquiry:** Credit check for info only (no impact).
- **Charge-off:** Debt declared uncollectible by lender (still owed).
- **Collections:** Debt sent to third-party collectors.
- **Secured vs. Unsecured:** With or without collateral.

 ***Interactive Prompt:*** Write your own definition of APR in your own words. 

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# SECURED VS. UNSECURED CREDIT

- **Secured Credit:** Requires deposit/collateral (secured card, mortgage, auto loan). Safer for lenders.
- **Unsecured Credit:** Based on credit history only (regular cards, personal loans, student loans).

 ***Interactive Exercise:*** List one secured product and one unsecured product you've heard of or used. 

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# AUTHORIZED USERS

- **Definition:** Someone added to another person's card. You get the benefit of their payment history, but you don't have to pay.
- **Benefits:** Builds credit faster, helps beginners.
- **Risks:** If the primary cardholder misses payments or runs up debt, it hurts your score too.
- **Best Use:** Choose a responsible cardholder with on-time payments and low utilization.

 ***Interactive Prompt:*** Write down the initials of someone you trust who could responsibly add you as an authorized user. 

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# WHAT DESTROYS CREDIT

## Common Mistakes:

- Missing payments
- Maxing out credit cards
- Too many applications
- Closing old accounts
- Letting accounts go to collections
- Filing bankruptcy

## How Long Negatives Stay:

- Late Payments = 7 years
- Collections = 7 years
- Charge-offs = 7 years
- Repossession = 7 years
- Foreclosure = 7 years
- Bankruptcy (Chapter 13) = 7 years
- Bankruptcy (Chapter 7) = 10 years
- Hard Inquiries = 2 years (impact fades after 1)
- High Utilization = Until paid down

 **Interactive Exercise:** Circle the one negative item on the chart that you think would be hardest to bounce back from, and explain why. 



# UNDERSTANDING & CALCULATING APR

## Why APR Matters:

- APR shows the true cost of borrowing money, including interest and fees.
- Formula:

$$APR = \left( \frac{\text{Total Interest} + \text{Fees}}{\text{Loan Amount}} \div \text{Loan Term in Years} \right) \times 100$$

## Example 1:

- Borrow \$1,000 for 1 year
- Interest = \$80, Fees = \$20
- APR = 10%

## Example 2:

- Borrow \$5,000 for 3 years
- Interest = \$900, Fees = \$100
- APR = 6.67%

 **Interactive Exercise:** Create your own APR problem using fake numbers. Show your math.



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# CREDIT BUREAUS & CONTACT INFO

## Equifax

- Website: [equifax.com](http://equifax.com)
- Phone: 1-800-685-1111
- Address: P.O. Box 740241, Atlanta, GA 30374

## Experian

- Website: [experian.com](http://experian.com)
- Phone: 1-888-397-3742
- Address: P.O. Box 4500, Allen, TX 75013

## TransUnion

- Website: [transunion.com](http://transunion.com)
- Phone: 1-800-916-8800
- Address: P.O. Box 2000, Chester, PA 19016

 ***Interactive Exercise:*** Which bureau would you contact if you found an error on your report? Write it below. 

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# WEBSITES TO SEE YOUR CREDIT FOR FREE

- AnnualCreditReport.com - Official free report once per year from each bureau.
- Credit Karma - Free scores & monitoring.
- Experian Free Score - Get Experian's free score.
- Credit Sesame - Free score & advice.

 **Interactive Prompt:** Write down which site you will check this month and why. 

# RECOMMENDED CREDIT CARDS (2025)

(Source: Bankrate Best Credit Cards 2025)

- **Chase Freedom Unlimited®** - *Everyday rewards.*
- **Wells Fargo Reflect® Card** - *Long intro APR period.*
- **Capital One Savor®** - *Best for dining & entertainment.*
- **Citi Double Cash® Card** - *Simple flat-rate rewards.*
- **Discover it® Secured** - *Great for beginners building credit.*
- **Capital One QuicksilverOne** - *For fair/rebuilding credit.*
- **Blue Cash Preferred® (AmEx)** - *Strong grocery/family spending rewards.*

 **Interactive Prompt:** Which card do you think would best fit your lifestyle? Write your choice below



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# WRAP-UP & HOMEWORK

Quiz Question: What is the #1 factor in your credit score? 

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Discussion: Share one credit mistake you've seen others make. 

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Homework: Pull your free credit report this month and highlight one thing you don't understand. Bring it to next session. 

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# STEPS TO GET STARTED WITH CREDIT

## **Step 1: Check Your Current Status**

- Visit AnnualCreditReport.com to pull your free credit report.
- Write down: Do you already have any accounts reporting? Are there errors?

## **Step 2: Choose Your Starting Path**

- No credit at all? Apply for a secured credit card or ask a family member to add you as an authorized user.
- Some credit history? Keep balances low and make every payment on time.
- Bad credit? Focus on paying down collections, and use a secured card to rebuild.

## **Step 3: Open Your First Account Wisely**

- If you choose a secured card: Deposit \$200-\$500 and use it for small purchases (like gas or groceries).
- Pay the balance in full each month to avoid interest.



# STEPS TO GET STARTED WITH CREDIT (CONTINUED)

## **Step 4: Keep Your Utilization Low**

- Rule of thumb: Stay under 30% of your credit limit.

Example: \$1,000 limit → keep balance under \$300 (best under \$100).

## **Step 5: Automate and Track**

- Set up autopay for at least the minimum due.
- Use free tools (Credit Karma, Experian, etc.) to monitor your score and progress.

## **Step 6: Build Consistency**

- Make on-time payments for at least 6 months — this is the fastest way to see improvement.
- Don't apply for too many cards at once; space applications out by at least 6-12 months.

## **Step 7: Set Credit Goals**

- Short-term (3-6 months): Build a record of on-time payments.
- Mid-term (1-2 years): Reach a score of 680+ (good credit range).
- Long-term (3-5 years): Qualify for major loans (car, house) with the lowest interest rates.



# STEPS TO GET STARTED WITH CREDIT (CONTINUED)

## **Step 8: Review & Adjust**

- Every 6-12 months:
- Recheck your credit reports.
- Dispute any errors.
- Ask yourself: "Am I closer to my goal?"

 **BIG REMINDER:** Credit is a marathon, not a sprint. Even small, consistent steps (like paying a \$20 phone bill on time) build into a strong score over time.



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