Syracuse Smart Money

UNDERSTANDING DEBT AND CREDIT

Debt is an obligation created when someone owes something to someone else

Types of Debt

- Short-term debt is a debt you pay off within a year. Debt accumulated on credit cards is the most common example.
- Long-term debt is debt that takes more than a year to pay off. For example, home and car loans are considered long-term debt.

Credit is the ability to acquire debt

Types of Credit

- Revolving (open-ended) Credit: is an agreement that allows a borrower to repeatedly borrow up to a specified credit limit.
- Installment Credit: loans with set payments every month.
- Non-Installment Credit: is very short-term credit (typically 30 days or less).

Before you open a credit card:

- Create and use a budget every month to make sure income supports credit use.
- Compare cards. NerdWallet offers a free, comprehensive comparison tool. Things to compare include:
  - Annual Fees: some cards charge annual fees in addition to the cost of borrowing.
  - Annual Percentage Rate (APR): is the yearly interest rate you will pay if you carry a balance on your card. The lower the APR the better!
  - Reward Programs: some providers offer reward programs. For example, certain cards give students a reward for earning good grades.
  - Services Provided: selected providers will also monitor Social Security breaches, offer fraud liability coverage, and charge zero foreign transaction fees.

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UNDERSTANDING YOUR CREDIT SCORE

A credit score is a measurement tool that is used to evaluate how you manage your money.

5 Components of a Credit Score

1. Payment history (35%)
   - Do you make your payments on time? Do you have any past-due items? How long have past due items been past due?
2. Amounts owed (30%)
   - How much debt do you owe? The more you have, the harder it may be for you to make payments. What proportion of your credit is being used? Have you recently closed any accounts?
3. Length of Credit History (15%)
   - How long is your credit history? The longer your credit history shows you have a record of paying your debts, the less risky you seem. What was the last activity on your account? Shorter periods of on-time payments demonstrate you can manage money for short periods.
4. New Credit (10%)
   - How many new accounts have you opened? Opening several accounts in a short period is a red flag because it may mean you are short on cash and not able to make payments. How many times has your credit been checked? Too many credit checks may reflect negatively on your score.
5. Types of Credit (10%)
   - What different kinds of credit do you have? Having a mix is good for your score because it shows you can handle different types of credit.

Who checks your credit score?

- Banks: to determine if they will lend you money.
- Insurance companies: to determine if they are willing to insure you.
- Employers: to help determine if you are responsible.
- Landlords: to help determine if you will be a responsible tenant and make timely payments.

Credit scores

300 - 579 → Very poor credit score

580 - 669 → Fair credit score

670 - 739 → Good credit score

740 - 799 → Very good credit score

800 - 850 → Exceptional credit score