

# GET SMART ABOUT CREDIT

**Credit is an essential part of the American economy. March is credit education month and we invite you to learn something new.**

To celebrate, American Heritage Insurance Group is working to educate our clients, families, work relationships, and everyone else when it comes to credit. Enjoy our guide to getting smart about credit and begin to understand why you should really learn and teach others about credit.

## WHAT YOU WILL LEARN FROM GETTING SMART WITH CREDIT

A Really Cool Credit 101 Infographic  
What is Credit & Why Should I Care?  
What Affects My Credit Score?  
How to Start Building Credit  
How to Fix a Bad Credit Score  
Resources & Quiz

## FACTS & FIGURES

Average Credit Card Debt

**\$15,609**

Average Mortgage Debt

**\$156,706**

Average Student Loan Debt

**\$35,000**

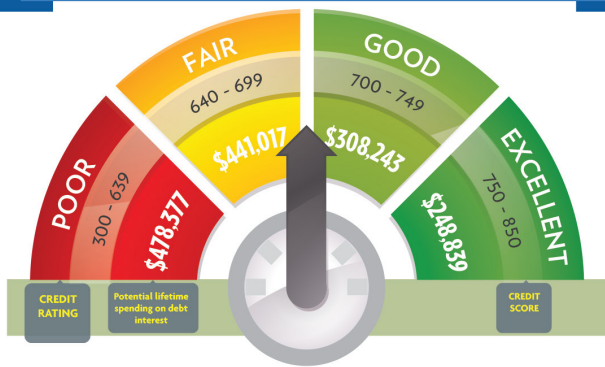
# Your Life Through Credit:

# HOW MUCH ARE YOU REALLY SPENDING?

## IGNORING YOUR CREDIT SCORE COSTS YOU.

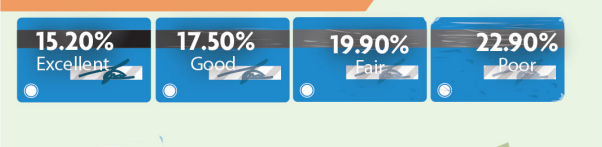
Looking at a typical American's life and interest paid on debt, someone with an excellent credit score (750+) might pay \$230,000 less in interest than someone with poor credit (between 300 and 639). Considering the median U.S. household income according to the U.S. Census Bureau is \$51,939 before taxes, that's several years of annual income that could be saved. Smart decisions and a higher credit score can make a substantial difference in your life. It adds up quickly, so why put it off? Your credit score has a life that runs parallel to your own.

### THE PRICE OF YOUR CREDIT SCORE

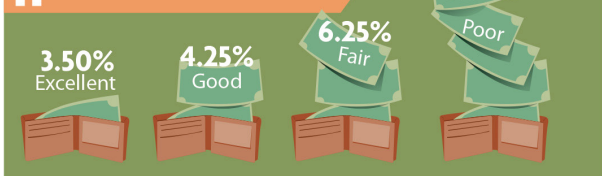


What rates you might expect:

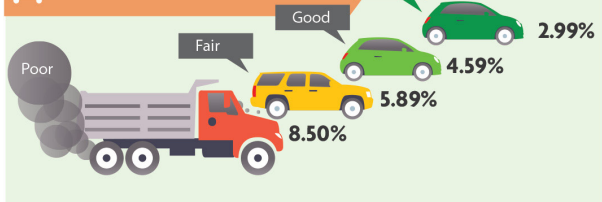
#### TYPICAL CREDIT CARD APRs



#### TYPICAL MORTGAGE RATES

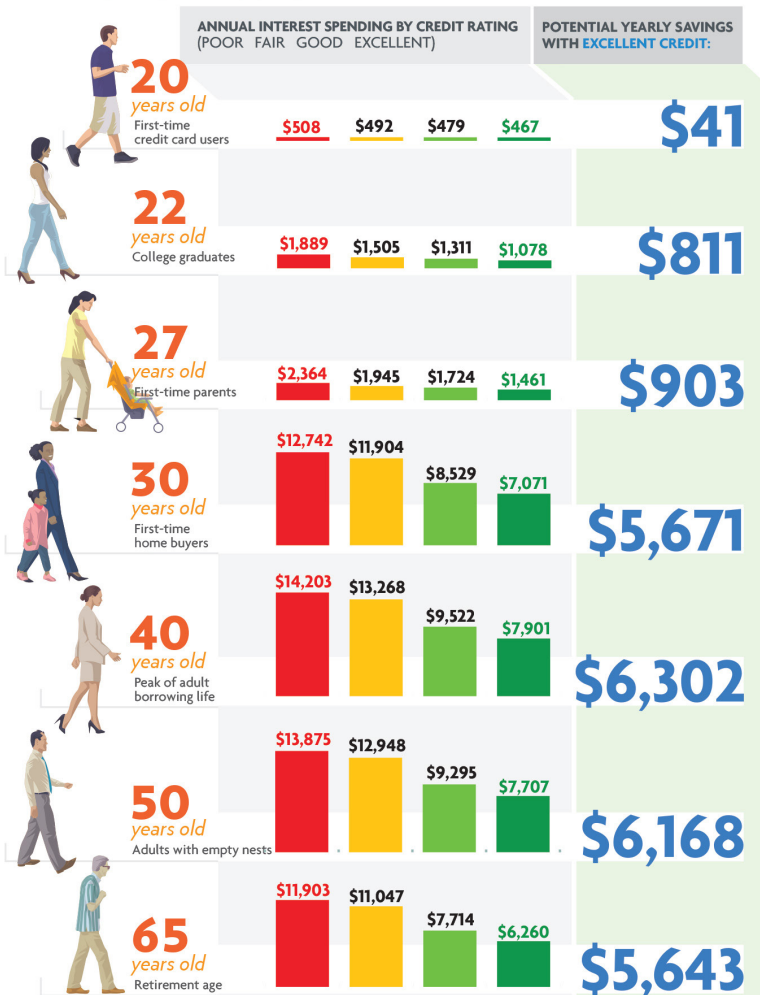


#### TYPICAL AUTO LOAN RATE



### CREDIT'S GROWING IMPACT

Based off Credit Karma's data reflecting typical borrowing patterns (credit card spending, auto and student loans, mortgages) by age level, the financial benefit of using your credit responsibly can add up quickly in life:



**NOTES** • Calculations of potential lifetime interest spending and savings are based on a credit lifespan of 18 to 65 years and an analysis of median debt amounts for auto, credit and mortgage loans of a sample of Credit Karma members in different age groups and credit score bands. Individuals were assumed to pay interest at applicable rates on the full debt amounts of their credit profile.  
 • Calculation of potential age profile savings are based on estimations of typical auto, credit, student and mortgage loan profiles at different age groups. Individuals were assumed to pay interest at applicable rates on the full debt amounts of their credit profile.  
 • Typical interest rates are based on analysis of recent publicly available rates from lenders or other sources, and self-reported rates of Credit Karma members.



# 1

## WHAT IS CREDIT & WHY SHOULD I CARE?

### WHAT IS CREDIT?

In short, credit is borrowed money. People have a need to borrow money for various reasons. It can range from needing a new car, buying a house, needing a new couch, education, and various other reasons. In fact, you can essentially borrow money to pay for anything.

Credit is a risky business but those that participate in it, such as Discover, Chase, Local Banks and more, have found a successful way to rank someone so lenders can know if someone will pay them back. This is why everyone who has ever borrowed money or is just starting has a credit score.

### IMPORTANT TERMS YOU NEED TO KNOW

Credit Karma recommends everyone learn the following terms:

- **Credit Bureaus:** Companies that collect consumers' credit information and compile the data into credit score reports. There are only 3 recognized companies: Equifax, Experian, and TransUnion.
- **Credit Report:** A detailed account of your credit history. It will show things like how many accounts you have, how often you make payments, and the amount of debt accrued. Some feature additional items such as length of time the account has been opened. This will help a lender determine if you will pay them back if they provide you a line of credit.
- **Credit Score:** This is a 3 digit number calculated from the information shown on your credit report. Don't be scared if you have slightly different credit scores. Each company ranks variables differently so this is normal.

### WHY SHOULD I CARE?

While you may not want to open credit cards or take out a loan, having credit is almost inevitable. Credit can be risky and if not handled properly can quickly spin out of control. But credit is also beneficial when it comes to expensive items such as a home or car.

Having a good credit score can reap you the benefits of low interest rates, reward cards, and positive outlooks to receiving car loans and mortgages. If you have a bad credit score, where you live, work and go to school could be affected...plus more.

### MORE RESOURCES

[Kiplinger - 6 Things to Know About Credit Scores](#)

[Kiplinger - 9 Tips for Better Credit](#)



# 2

## WHAT AFFECTS MY CREDIT SCORE?

### VARIABLES AFFECTING YOUR SCORE

Credit Karma lists six different variables that will directly affect your credit score. These variables can have a high-impact, medium-impact or low-impact. See the chart below for details.

VARIABLES	IMPACT
Credit Card Usage	High
On-Time Payments	High
Negative Marks	High
Age of Credit	Medium
Credit Mix	Low
Hard Inquiries	Low

### HOW EACH VARIABLE AFFECTS YOUR SCORE

**Credit Card Usage** affects your score because it shows how much you are utilizing your credit limits. The recommended percentage of credit usage is 30%.

**On-Time Payments** have a high-impact because it validates why lenders should loan you money. Having a good history of on-time payments shows lenders that you are likely to pay them back and on-time without issues or concern.

**Negative Marks** include bankruptcies, accounts in collections, and tax liens. This helps lenders determine if you are financially secure or if you have had a history of poor credit management.

**Age of Credit** impacts you because if you only have short term credit, it's hard for lenders to determine how you are as a customer for long-term business. It's beneficial to keep your oldest credit lines open and active to decrease the impact.

**Credit Mix** shows what various types of credit you have such as loans, credit cards, mortgages etc. Several various credit lines are actually good because it shows that other lenders trust you with your credit as well.

**Hard Inquiries** are typically caused by financial institutions who are checking your credit for a lending decision. Having too many can show you are desperate or are not getting approved so try to keep this number low.

# 3 HOW TO START BUILDING CREDIT

## STEP 1: WHERE ARE YOU NOW

The first and most important step to building credit is knowing where you stand right now. File for a free credit report and review all the various details. Make notes and check for any errors as these need to be fixed almost immediately.

## STEP 2: CREATE YOUR OBJECTIVES

Credit Karma recommends that if you want to be successful at building good credit, you should create a list of objectives. This will help you determine what type of credit you need to open, steps to paying off credit, etc.

## STEP 3: CREATE A PROFILE

Begin researching various credit card offers, loans and other lines of credit to determine which will benefit you and your objectives. A reasonable way to do this is to apply for credit lines that relate to your personal goals, needs, and desires. If you have absolutely zero credit or credit history, you can use a co-signer to get better rates and offers.

## STEP 4: USE YOUR CREDIT

By using your credit responsibly you are reflecting who you are as a customer to a lender. If you never use your credit, it won't show the benefits such as on time payments, age of credit, and low usage. It also opens up opportunities for great rates and rewards.

Credit Karma recommends these tips:

- Pay Your Bills On Time
- Use Your Credit But Keep Utilization Under 30%
- Build Your Credit History with Old Accounts that are Open and Active
- Avoid Applying Too Much Credit at Once
- Have Multiple, Varied Accounts

### MORE RESOURCES

[Wells Fargo - How to Calculate Your Credit Score](#)  
[Biz Journals - Tips on Managing Credit](#)

## WELLS FARGO TIPS TO ESTABLISHING CREDIT

### WHY YOU SHOULD ESTABLISH CREDIT

Wells Fargo recommends the following reasons to establish credit:

- You might need good credit for routine items - This can include utilities for your house or apartment.
- Good credit is important to secure financing when you buy furniture, a computer, a car, or a home.
- An employer will often check credit scores of a prospective employee.
- Renting an apartment might be easier if you have an established credit score.
- If you need a loan, banks are more likely to give you a better interest rate and overall loan if you have an established credit history.

### HOW A CREDIT CARD HELPS

If you have zero credit, your best option might be a credit card to start building up your credit and credit history. Wells Fargo says credit cards have perks including:

- Buy Items Online, Over the Phone, and Catalogs
- Make Travel Reservations, Purchase Airline Tickets, and Rent Cars
- Shop More Safely with Less Cash
- Budget Larger Purchases by Paying Installments
- Access Funds for Emergencies

### MORE RESOURCES

[Kiplinger - 11 Credit Card Mistakes to Avoid](#)

# 4

## HOW TO FIX A BAD CREDIT SCORE

### SITUATION

You opened your first credit card as a junior in college. When you maxed that first card out, you opened another. When you graduated, you went into loan repayment, then you had to take out a loan for a new car and so on.

Suddenly you are left wondering, why is my credit score so low? Why is my debt so high? Then you realize you maybe messed up somewhere and were not financially responsible.

Don't worry. You are not alone! Many people are undereducated when it comes to personal finances and the responsibility that is associated with it. Hopefully you have started to take some of the steps below. If not, start today!

### WHAT TO DO RIGHT NOW

myFico makes it clear that there isn't a clear fix if you have too much debt, but you can start with these three steps:

1. Check Your Credit Report
2. Setup Payment Reminders or Automatic Payments
3. Reduce the Amount of Debt You Owe

#### MORE RESOURCES

[Kiplinger - Best Ways to Pay Off Every Type of Loan](#)  
[Kiplinger - Get Out of Debt Quiz](#)

## MYFICO TIPS TO REPAIR YOUR CREDIT SCORE

Depending on your situation, myFico offers several tips based on different scenarios:

### Payment History

- Pay Your Bills on Time
- If You Have Missed Payments, Get Current and Stay Current
- Be Aware that Paying Off Collections Will Not Remove it from Your Credit Score
- If You Can't Afford Payments Contact Creditors Immediately or Call a Credit Counselor

### Amounts Owed

- Keep Balances Low on Revolving Credit
- High Outstanding Debt will Affect a Credit Score
- Pay Off Debt vs. Moving it Around
- Don't Close Unused Cards as a Short Term Fix
- Don't Open New Credit Cards to Increase Your Available Credit

### Length of Credit History

- Don't Open Accounts Too Fast

### New Credit

- Rate Shop for a Period of Time
- Re-Establish Credit History if You've had Problems
- It's OK to Request and Check Your Credit Score: make sure you use credit score agencies or an organization authorized to provide credit reports to customers.

### Types of Credit Use

- Apply For & Open New Credit Accounts Only as Needed
- Have Credit Cards - But Effectively Manage Them
- Closing an Account Doesn't Make it Go Away

**Credit is not something to fear. Educate yourself during the month of March and make plans to improve your credit for the rest of 2016.**

**Happy Credit Education Month!**

## RESOURCES

- [Credit Karma - Credit 101](#)
- [Wells Fargo - Ways to Build Credit](#)
- [myFico - How to Repair My Credit and Improve my FICO Scores](#)

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