Smart Money
Knowing Your Credit Score Basics

An Honors Thesis (HONRS 499)

by

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The Honors project, “Smart Money”, has been created and designed for teens, specifically juniors and seniors in high school as well as freshmen in college. These students are at the age where they are preparing for financial independence, whether it is attending college or getting a job. It is too often seen that twenty-somethings are declaring bankruptcy or have debt collectors calling at all hours because they were never properly educated on a topic that will affect many aspects of their lives. It is not that these teens do not know of the current economy, as surveys shows that 64% of teens (Junior Achievement/ING) are concerned with it and even a surprising 55% (Junior Achievement/ING) are concerned with the unemployment rate, it is perhaps that they just don’t know what to do about it or how to help themselves. Considering the current economy, this seems to be perfect timing for teens to see the effects of poor financial management without feeling the significant repercussions of it.

The inspiration for my project was rooted when I first came to college. During my freshman year of college, a close friend of mine began to bury herself in a large amount of credit card debt. It was as severe as collection agencies calling close friends (that she had inadvertently labeled as work references) and her workplace along with incessant calls to her personal line. I could not fathom how she managed to get herself in so much debt until I dug a little more into her financial literacy history. After many inquiries, I had learned that she really didn’t know any better and didn’t understand the weight of a bad credit score. And as for my friend, she finally decided to go to a debt consolidation company and get her financials
straightened out. Unfortunately, her credit score was ruined and she could only function on cash.

This situation with my friend sparked an interest in me to understand more about my financial situation and how to manage money. I asked myself, if a bright girl such as my friend got herself in so much trouble with debt, how many other high school and college students don’t understand money management? I was fortunate enough to not have to worry about paying for college, but expenses were another story. This made me start to research about money management, credit scores, and budgeting on my own time just so I could get a better grasp of the topics. While researching, I noticed that it wasn’t that there was little information available, but quite the opposite. There was an overwhelming amount of information and most of it was very difficult to read through.

As I was developing a topic for my honors thesis, I felt that this was an appropriate direction as I was a business major and had a graphic design background. I thought that I could take the abundance of information available and whittle it down to what was the most relevant, accurate, and reliable information in a form that was concise, easily accessible and user-friendly. My first steps to the project were to decide what topics I wanted to cover and figure out how to present it. I decided that that the best way to present it was as a “go-to guide” that would be fashioned similar to how a magazine would look like because as a teen, these seem to be the easiest and most enjoyable to read. Then, I decided on the topics that I should cover. I originally chose to cover different ways to save money, credit scores, borrowing money, credit cards, and interest rates and named my project, “Smart Money”.
As I began to design and outline “Smart Money”, I realized that there was too much information to cover on each topic. Not only would this be an extremely lengthy “go-to guide” but also, with so much information, I could not keep the attention of my targeted audience, teenagers. So instead I chose just one of the topics I felt would be often overlooked and difficult to understand, credit scores. By choosing credit scores as a topic, it also provides a brief overview of other topics such as credit cards and loans.

The components of “Smart Money” include two basic elements: the information and the design. Information would be divided into the following categories: terminology, the basics of what is a credit score, where can credit scores be found, the sections of a credit score, and ways to maintain your score, as well as information about credit cards and saving. The design would be a clean, easy to read guide that would be fashioned similar to a magazine. Design elements used include concepts from current teen magazines such as color, glossy pages, and interactive activities replacing outdated black and white tri-fold pamphlets. Although elements would include color, glossy pages similar to a magazine, the guide would be crisp and clean as to not deter from the information. Content would then be presented in commonly used vocabulary.

The importance of “Smart Money” is to educate teens on a topic that is too often overlooked and forgotten, financial management. Managing money may seem like a subject that teens feel does not apply to them or is over their heads, but it is at their age that it is crucial to understand the importance of being smart with the money they already have and will receive in the near future. Topics such as the one covered by my thesis, credit scores, appear
to be innate subjects that teens have heard about since “forever,” but few actually understand the background and logistics of them.

There is no lack of information about financial management and credit scores available but my thesis is to gather the available information and create a medium where teens would want to learn about it. “Smart Money” would only cover the fundamentals of credit scores. The topic has been broken down so it is easily understood, avoiding business-specific terminology and elaborate phrasing. If teens could get a solid foundation in financial literacy, then they can make intelligent decisions about their own money management with further research, if they so choose.

As “Smart Money” came together, I reflected back to the beginning of my project process and realized that it is not what I quite anticipated. My original concept was a full color, mini-magazine that would cover a variety of topics. But as I developed the project, I realized that I may have bitten a bigger piece than I could chew. To cover all topics in enough detail as to provide a good, solid foundation would require several volumes of “Smart Money.” So instead, I chose to just focus on one area that is, unfortunately, discussed the least: credit scores. And at the same time, Smart money was originally conceptualized as a full-colored magazine, I realized that to properly relay the information to my audience, I needed to make the project much cleaner and less visually stimulating compared to what one would think of as a typical teen magazine.

In the end, I feel as if I did accomplish what I set my goal to be: to have a medium that would educate high school and college students on topics of financial management. Although it
did not cover as much material as I would’ve hoped it could, it does provide a good start. People in this age bracket know far too little about something that is so relevant to their everyday lives, and this guide would definitely be something that would at least shed a little light. I wish I could’ve created or provided something such as Smart Money to my friend who is struggling to the day with her financials, but hopefully, my project will help people such as her in the future with similar situations.

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Works Cited (Artist Statement)
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Works Cited (Pages 2-3)

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Works Cited (Pages 8-9)

Bibliography


Knowing Your Credit Score Basics

Smart Money
Credit Score

A measure of credit risk calculated from a credit report using a standardized formula.

In other words: what financial institutions (i.e. banks) use to see if you're a good investment or not.

So what is MONEY?

Something generally accepted as a medium of exchange, a measure of value, or a means of payment.

According to Merriam-Webster...

In other words: Cash or other forms that can be spent and exchanged for goods and services.
According to Merriam-Webster...

**Credit Card**
A card authorizing purchases on credit

**Debit Card**
A card by which money may be withdrawn or the cost of purchases paid directly from the holder's bank account without the payment of interest

According to InvestorWords.com...

**Balance**: the amount of money in an account, equal to the net of credits and debits at the point in time of the account (AKA account balance); the outstanding debt on a loan

**Principal**: the amount borrowed, or the part of amount borrowed which remains unpaid

**Interest**: the fee charged by a lender to a borrower for the use of the borrowed money, usually expressed as an annual percentage of the principal
Understanding the Credit score

FICO (Fair Isaac Corporation) is the most commonly used credit scoring system.

75% of mortgage decisions & 90% of larger banks use FICO.

850 (PRISTINE)

300 (VERY RISKY)

The Scale

Credit scores are based on credit reports.

So Where Can I Find Mine?

Credit Report
- Experian
- Equifax
- TransUnion

Credit Score
- www.myfico.com
What Makes Up Your SCORE

35% Payment History
30% Credit Ratio
15% Credit History
10% New Credit/Debt
10% Mix of Credit Types

YOUR PRIORITIES

When Maintaining Your Score

Payment history is VERY important!
- One late payment can drop your score 100 points.

Your credit ratio is vital!
- 10% is ideal but with the economy, 25% is acceptable.

Show history!
- Keep your old cards active.
This usually consists of whether bills have been paid on time or not, how late is the delinquency, if there are any negative public records, and if anything has been sent to a collections agency. The more recent the history, the bigger the part it plays in your credit score. Lenders use this section to see whether you are reliable for payments.

Credit ratio is considered the amount of money that is owed compared to the amount of money that is available. This can include money owed on cars, credit cards, home loans, etc. Ideally, the ratio would be 10% meaning that if you had a credit limit of $1000, your outstanding balance would be no more than $100. But with the economy in its current state, an acceptable ratio is 25%.
This section is based on the length of your credit history, including the time since accounts have been opened and the time since there has been activity on the accounts. The rule of thumb is that the longer the history, the better your score is. Lenders look at this because the length of history can be used to forecast payment trends in the future.

Opening new credit accounts and inquiries into your credit will lower your score in the short term. There are two types of inquiries: a hard inquiry is one that you give lenders permission to lenders to search your credit and a soft inquiry is one that you look into your own credit. Don’t worry though, if you’re shopping around for loans, several hard inquiries in a short time frame count as just one.

The number of various types of accounts you have will help show lenders that you have experience with different types of credit (i.e. credit cards, auto loans, home loans, etc.).
TIPS on how to maintain or boost your score

This may be obvious, but pay your bills on time!

Closing an account doesn’t make it go away!

If you miss a payment, don’t get discouraged! Try your best to keep current and stay that way!

Keep your balance low!

Don’t open a bunch of credit cards just so get credit. Remember, opening accounts (or inquiries into opening an account) will lower your credit score.

Keep old accounts around, even if they aren’t being used.
Review your credit report and make sure you get any errors corrected. Credit bureaus can make mistakes too, so make sure there aren't any on your report! In addition, by reviewing your credit report, you can make sure that no one has stolen your identity!

Don't let anyone make an inquiry on your credit unless absolutely necessary.

Checking up on your own credit is okay, though!

**FYI**

*What isn't on your credit report*

- Race, color, religion, national origin, sex, and marital status
- Age
- Salary, occupation, title, employer, date employed, or employment history
- Address
- Interest rates on your credit cards
- Obligations and agreements (i.e. child/family support and leases)
Understanding your Credit card

So What Do I Look For?

- Special Promotions
- Interest Rate/APR
- Rewards Programs
- Fees/Service Charges

Why should you pay your balance down?

If you had a **$1000** balance...

And your interest rate was **15%** ...

If you only paid a *minimum balance* of **$20**, it would take you **7 years** and **$580** additional in interest charges to pay it off.

If you add **$30** to the *minimum balance* to **$50**, it would take you **2 years** and **$158** additional in interest charges to pay it off.
One of the best ways to save is create a budget.

What is your income? $$$$  

________________________  
________________________  
________________________  

TOTAL

What are your expenses? $$$$  

________________________  
________________________  
________________________  

TOTAL

Total Income - Total Expenses = Save Half! / 2 = Money To Spend!