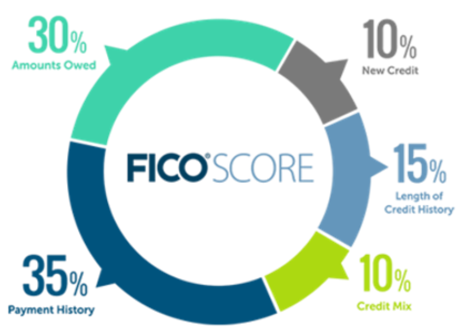
# Session 7 Handout: Financial Capabilities: Understanding Credit and Debt

## Key Takeaways

- Managing credit and debt are crucial to achieving economic mobility. As trusted family partners, we can help families understand these topics and create action plans to manage them.
- Credit is key to many long-term goals, but it also is tied to a history of systemic racism in financial practices. Acknowledging this in our work with families is important.
- Credit and debt are complicated! Remember that there are resources available to support your work with families, and that there are places to turn to when a family member needs help from a financial professional.

## Understanding Credit Scores




A credit score is a 3-digit number that is based on your credit history. Scores range from 300 to 850. Unlike credit reports, you can check your credit score any time. Credit scores can be accessed through a number of safe platforms, including Credit Karma and Credit Sesame, or through your bank or credit union. As a general rule, good (690 and up) and excellent (720 and up) scores give you better choices and help you save money when it comes to loans.

While companies (such as FICO and VantageScore) measure credit scores a little differently, most companies take the same factors into consideration:

- "Payment history" tracks whether you are paying your bills on time and as agreed. This is the biggest factor in your FICO Scores.
  - Paying bills late, not paying bills at all, and having bills that go to collections will cause your scores to drop.
  - The older this information is, the less impact it has on your scores.
- "Amounts owed" includes whether you are paying down your loan balances as agreed.
  - It also includes your credit utilization rate. Your credit utilization rate is how much of your available credit you are using.

    - If you use more than 20 to 30 percent of your credit limits, your scores may drop. The lower your credit utilization rate, the better from the perspective of scoring models.
- "Length of credit history" is the next factor that impacts your scores. Your score increases the longer you have a credit history.
- "New credit" tracks your inquiries. If you have too many inquiries, the model interprets this to mean you have a high demand for credit, which may be an indicator of risk, and your scores may drop.
    - When you are shopping for a loan, however, most models give you a short window of time (generally 14–45 days) when multiple inquiries can be made for some types of credit without causing your score to drop.
- Finally, "types of credit used" is considered.
    - Your FICO score increases if you have both credit cards (revolving credit) and loans (installment credit such as a mortgage or car loan).
    - Generally, it is considered a positive to have a mortgage, an auto loan, and some credit cards but not too many.

**Session Resources**

- Economic Mobility Toolkit for Head Start and Early Head Start (Key Topic 3: Building Credit and Managing Debt)
- Free Credit Reports
- Your Money, Your Goals toolkit
    - Your Money, Your Goals, Requesting Your Free Credit Reports
    - Your Money, Your Goals, Reviewing Your Credit Reports
    - Your Money, Your Goals, Dispute Errors on Your Credit Reports
    - Your Money, Your Goals, Debt Action Plan
- Finding a credit counselor
- Information on Settling Credit Card Debt
- Choosing a credit/debt counselor (guidance from the Consumer Financial Protection Bureau)
    - Counseling support from the FCAA
    - Counseling support from the NFCC

For more information, please contact us:
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This resource was supported by the Administration for Children and Families (ACF) of the United States (U.S.) Department of Health and Human Services (HHS) as part of a financial assistance award totaling $5,900,000 with 100% funded by ACF. The contents are those of the author(s) and do not necessarily represent the official views of, nor an endorsement, by ACF/HHS, or the U.S. Government.