



Congrats on your new loan!

Learning all about credit is important, and you are off to a really good start. Why is credit important, you ask? Well, there is **a lot** to say about credit, but we're going to try to break it down into a few simple boxes for you.

Let's start here... what's a credit score?

It's a number that tells companies how likely you are to pay your loans back. The higher the number, the better (it ranges from 300-850). The number changes over time as you show how well you can manage your loans and payments.

How can I get a good credit score?

- Make your payments on time every month. Making your payments late (or worse, not at all) can really hurt your credit score. If you ever need to make your payment late, be sure to call and let your credit union or bank know.
- Don't charge too much. If you have a credit card, only use it for things you can pay off soon. Charging too much can get you into trouble and eventually hurt your credit score. It's kind of like washing your hair: soap, rinse, repeat = charge, pay, repeat. You wouldn't want to put too much soap (charge) without rinsing (paying).
- Earning a good credit score takes time. We recommend paying on your first loan or credit card for 6 months to 1 year before applying for anything else. If you apply for a lot of different credit all at once, it can hurt your credit score.

Now you're on your way to building good credit. So...what?

Pat yourself on the back while flipping to the back side of this paper.

The so what:

Down the road when you're ready to make a bigger purchase like a car or home, if you don't have enough money saved you'll have to apply for a loan. If you have good credit, you'll get a lower interest rate on that loan.

wait...what's an interest rate?

Interest is the amount someone charges you to borrow their money. For example, if you borrow \$100 from your parents, they might tell you that you'll have to pay them back \$10 in interest. So instead of paying them back the \$100 you borrowed, you'd have to pay them back a total of \$110. Interest is the price you pay to borrow money.

An **interest rate** tells you how much you'll have to pay to borrow money. The lower the interest rate, the less you'll have to pay.

So, good credit = low interest rates = paying less money to get your loan. Win!

Let's look at a real example. Sally followed the tips on the other side to get a good credit score, so she got a lower interest rate than Susie on the exact same loan. The difference between a low interest rate and just an ok interest rate can save you thousands of dollars on your payments over time.

SALLY

Car Loan: \$20,000

Credit Score: 720

Interest Rate: 3.99%

Monthly Payment: \$368.79

Interest Paid over the whole Loan: \$2126.87

That's over \$6,000 less than Susie!

SUSIE

Car Loan: \$20,000

Credit Score: 620

Interest Rate: 14.49%

Monthly Payment: \$472.95

Interest Paid over the whole Loan: \$8376.33

That's over \$6,000 more than Sally!

Sally's paying a lot less interest to borrow money than Susie has to pay. Imagine how much greater the interest savings would be on a home loan! As you can see, building good credit IS important. We're really proud of you for taking the first step. If you ever have any more questions about credit along the way (or anything financial at all), we would be so happy to help.

Happy credit building! 