

What's a Credit Score?

A Guide for Teenagers



Your credit score says a lot about you, and understanding how to improve your credit score is an important step towards reaching your financial goals. While you probably won't have an actual credit score until you are at least 18 years old, you should still have a basic understanding. Having the information now will set you up to make smart financial decisions in the future. Cedar Point Federal Credit Union recognizes the importance of credit scores and has put together this packet to help teenagers. Using this guide, you will learn about credit reports and credit scores, including how to improve your score.

What's a Credit Report?

A credit report is a profile of your financial history and is created by a credit bureau. Credit reports include your personal information and financial history, including things like debts, credit card usage, unpaid bills, and bankruptcies. Reviewers need to know how well you've managed your money in the past so they can decide whether or not to loan you money or do business with you. This report can, and most likely will, be reviewed by different companies and groups, such as:

- Credit unions
- Banks
- Credit card issuers
- Lenders
- Auto financiers
- Insurance companies
- Landlords
- Potential employers

You may be surprised to see "potential employers" on that list. Employers see a modified version of your credit report, which does not include your credit score. However, employers are able to see your payment history, available credit, and debt. Employers may use a credit report to check for potential problems in a new hire. If you rarely make payments on time or have excessive debt, an employer might think you are irresponsible or untrustworthy. That could lead to you not getting hired or promoted. Keep in mind that an employer must receive your written permission before conducting a credit check.

Your credit report changes overtime. Positive information helps your credit report to strengthen, while negative information can weaken it. However, even if something bad happens, your credit report can eventually heal over time. Most negative information stays on your credit report for about seven years. Bankruptcies can stay for as long as ten years. It's important to strengthen your credit report as a young adult. This will help you to successfully make large purchases in your future, like a house or a car.

What's a Credit Score?

When you apply for things like credit cards or loans, the lender will determine the risk of doing business with you by checking your credit score. There are three main credit bureaus that keep credit information about you – Experian, TransUnion, and Equifax. These credit bureaus analyze a lot of information including your payment history, your debt, the length of your credit history, and the number of accounts you have. Using this information, most credit bureaus assign you a credit score ranging from 300 to 850. This score helps lenders decide whether or not to loan you money. The higher your score, the better, because that means there is less risk associated with loaning money to you. Many people strive for a credit score above 700, if not higher.



Checking Your Score

Your credit score will change depending on changes in the data collected. It's important to check your credit score at least once per year. Many financial institutions offer credit score checking services. Cedar Point Federal Credit Union offers a free credit checking service called "Credit Sense" online and on their app. That makes it very simple to keep track of your score. Additionally, you are entitled to a free copy of your credit report every 12 months from each of the three major credit bureaus previously mentioned. However, this free report does not include a credit score.

5 Tips to Build Good Credit as a Teenager

- If you have a credit card, use it responsibly. See "Credit Card IQ, A Guide for Teenagers" for more information.
- Pay your bills on time. Set up automatic payments when available.
- Seek employment. A steady income from a job will help you pay for your expenses so you don't accrue debt.
- Avoid borrowing money that you cannot pay back in a reasonable amount of time.
- Check your credit report periodically for errors. Report any errors immediately to the credit bureau.

Credit Score Quiz

Answer the following questions to test your new knowledge about credit.

1. What's the difference between a credit score and a credit report?
2. Who collects the information on which credit reports are based?
3. Why might a potential employer look at your credit report?
4. List 3 factors that contribute to a change in your credit score.
5. What is one way to check your credit score for free?
6. What's one thing you can do as a teenager to start building good credit?