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Staying on Top of Your Credit and Debt

For U.S. Employees

When used wisely, credit and debt can be powerful tools to help you achieve your financial goals.

Credit and Debt 101

Credit and debt are two sides of the same coin that are often measured by a three-digit **credit score.**

Credit

Credit refers to the amount of money that others are willing to lend to you.

Debt

Debt refers to the amount of money that you have actually borrowed from others. Your borrowing and repayment behaviors influence your credit score.

Your Credit Score Has Real-Life Ramifications

Your Perceived Financial Trustworthiness, Quantified by Your Credit Score, Could Potentially Impact:

- Interest rates on loans (including mortgages)
- Limits on credit cards or loan amounts
- Access to credit card rewards and interest rates
- Car insurance premiums
- Ability to rent or own a home
- Need for security deposit on utilities

1. The Balance. 9 Benefits of Having a Good Credit Score. 2020

Credit Scores Rely on Five Categories of Information

At its core, your credit score is an attempt to measure how responsible you are with money.

PAYMENT HISTORY
This is the most significant factor!

UTILIZATION
Balance-to-limit ratio on credit cards

LENGTH OF CREDIT HISTORY
Length of time accounts have been open and mix of account types

RECENT ACTIVITY
How much credit you've applied for/received in recent months

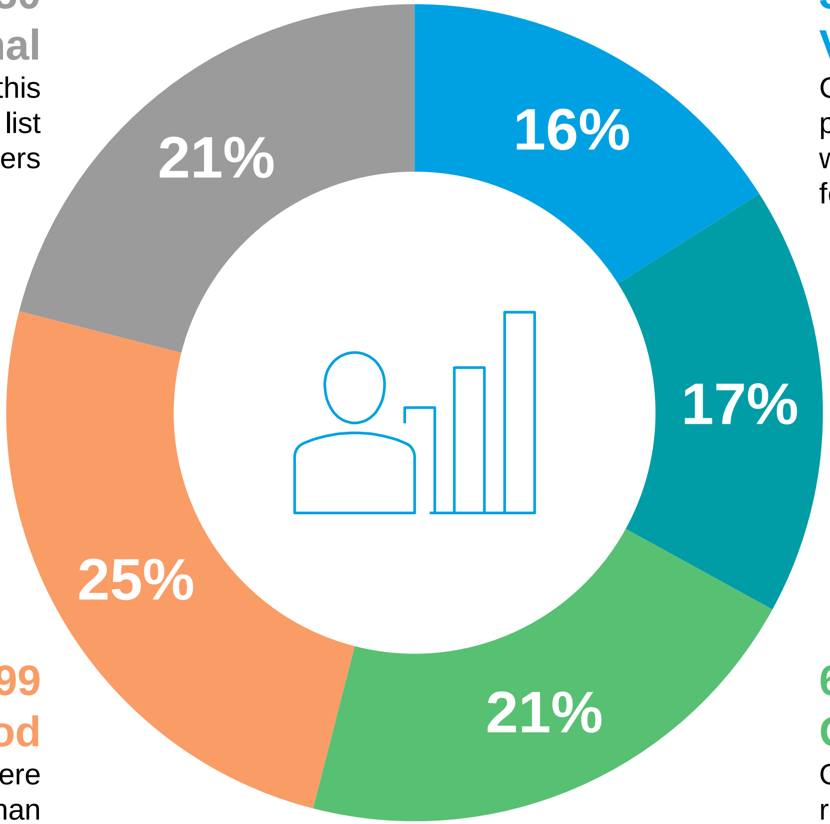
OVERALL CAPACITY
How much installment debt is outstanding

Source: Investopedia.com. Your Credit Rating Matters

Credit Score Breakdown

800-850
Exceptional
Applicants with scores in this range are at the top of the list for the best rates from lenders

300-579
Very Poor
Credit applicants may be required to pay a fee or deposit, and applicants with this rating may not be approved for credit at all



580-669
Fair
Applicants with scores in this range are considered to be subprime borrowers

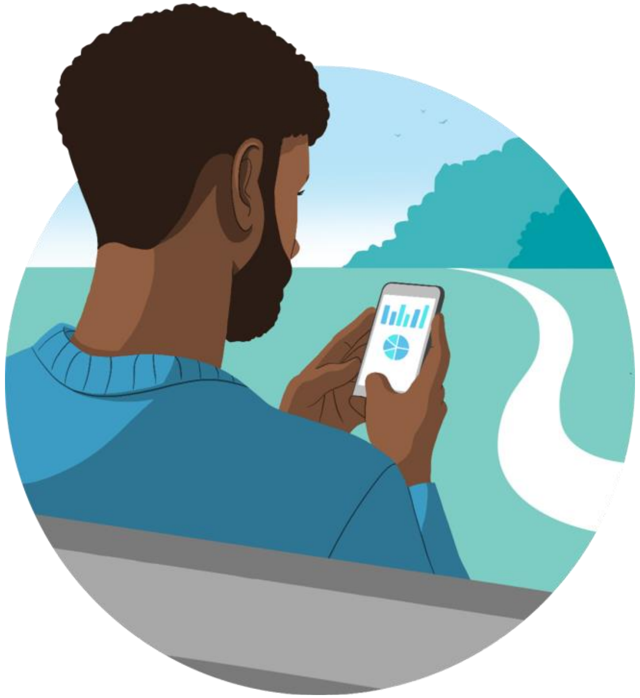
740-799
Very Good
Applicants with scores here are likely to receive better than average rates from lenders

670-739
Good
Only 8% of applicants in this score ranges are likely to become seriously delinquent in the future

703
average credit score (1)

1 Experian. What is a Good Credit Score.
Each credit company could have different scoring tiers.

Be Sure to Check on Your Progress and Protect Yourself



Review your credit reports at least once a year.

It is important to review your credit report. Activity or accounts you don't recognize can be signs of identity theft.

You're entitled to one free copy of your credit report every 12 months from the three nationwide credit reporting companies – Equifax, Experian, and TransUnion.

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Debt can directly influence your credit.

Paying Off Debt Can Boost Your Credit Score

Overall debt accounts for ~30% of your credit score.[1]

Quickly paying off balances helps raise your credit score because you’re both lowering your credit utilization and building your repayment history.

1. The Balance. How Debt Affects Your Credit Score. 2021

Not All Debt is the Same

1 REVOLVING DEBT

comes from credit cards, where you can carry a balance from month to month. You can borrow up to a predetermined credit limit and interest rates are subject to change. If you carry a high balance on your credit cards, it will negatively affect your credit – especially if you're doing it with multiple cards.[1]

2 INSTALLMENT DEBT

comes from mortgages, car loans, student loans and personal loans. In most cases, the amount you borrow, the interest rate and your monthly payments are fixed at the start. With installment debt, having a high balance doesn't have a big impact on your credit.[1]

1. Credit Card Insider. How to Pay Off Debt: 6 Strategies that Work. 2021

Credit Card Debt Can Be Costly

Credit cards can be a major driver of expensive debt. *Consider your actual financial needs before opening a new credit card.*

14.54% was the average annual percentage rate (APR) for outstanding credit card accounts in August 2021[1]

Credit cards can have costly consequences

for illustrative purposes only

$5,000 charged on a credit card

$100 monthly payments

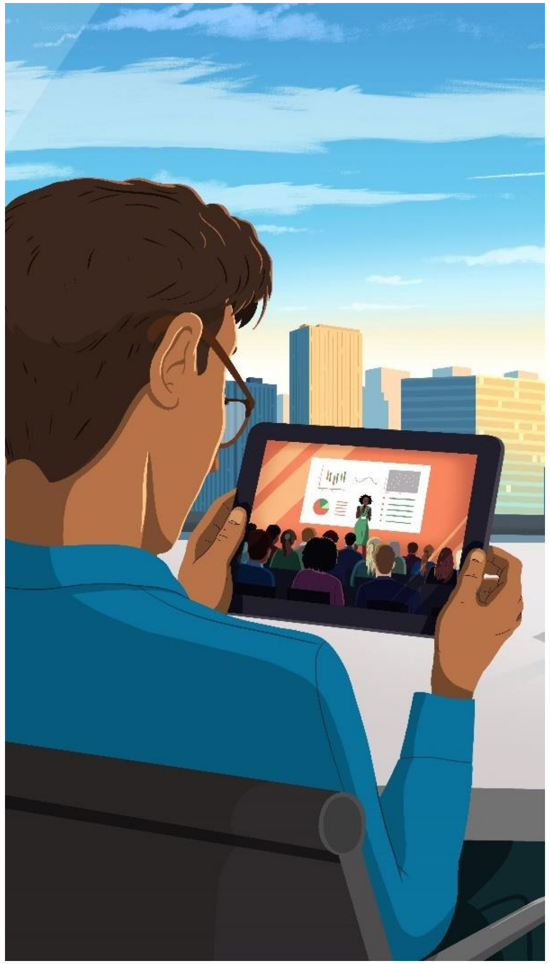
20% APR

109 months, or **9+ years,** to pay it off

$5,843.47 in interest

1. Federal Reserve. Statistical Release: Consumer Credit, Aug 2021. 2021

If You Want to Close a Credit Card, Be Strategic



Closing credit cards *may* hurt your credit.

When your available credit limit is reduced, your credit utilization rate may increase, which is a sign of risk to lenders. Experts recommend a utilization rate under 30%, and in general, the lower, the better.[1]

It may make sense to close a credit card if:

- There is a high annual fee and the benefits aren't valuable
- The interest rate is high and you need to carry a balance
- You are struggling to manage your debt load and are having trouble resisting the temptation of spending beyond your means with the card.
- You want to get rid of a bare-bones card, like a student card, in exchange for a regular or rewards card

It may make sense to maintain the credit card if:

- It's the oldest account on your credit report
- You don't have many other open credit accounts, which can make it harder to qualify for future credit
- The only reason you're cancelling it is infrequent use

1. NerdWallet. 30% Credit Utilization Rule: Truth or Myth?. 2021

Credit Cards Can Be Used Strategically

Doing a balance transfer, or transferring higher-interest debt to a lower-interest credit card, can help you pay down debt.

The amount saved in interest per month can be used to pay down the principal on the card – reducing your outstanding debt in a shorter time period.

Not All Debt Is Bad

When debt is used strategically, it can help build wealth. Student loans, mortgages, and business loans all have the *potential* to be “good debt.”

Whether debt is ultimately beneficial boils down to this question:

Will this debt pay me back more than what I put in?

Mortgage Debt 101

While homeownership is not for all families in all contexts, homes may appreciate over time, significantly add to net worth, and become a means of wealth transfer for the next generation.[1]

Know Your Budget

Factor in a down payment, monthly mortgage payments, closing costs of ~2-5%, maintenance and repairs, and necessary purchases.

Research Mortgage Rates

Compare mortgage rates from multiple providers. Check if you qualify for mortgage assistance programs (e.g., state, local, affinity group).

Protect Your Purchase with Insurance

Most mortgages require homeowners insurance. Compare rates and coverage from multiple providers – not all your insurance needs to be from one provider.

1. McKinsey & Company. The Case for Accelerating Financial Inclusion in Black Communities. 2020

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If you have debt, there are best practices to help you pay it down.

Best Practices to Pay Down Debt

30% of Americans worry about the amount of debt they have.[1]

Get an accurate picture of your debt

The first and most important thing is to have a full view of what your debt looks like, including: debt type(s), interest rates and interest deductibility.

Pay off the most expensive debt first

Start by paying off the highest-interest debt. Typically credit card interest rates are highest, followed by auto loans, student loans and mortgages.

Pay more than the minimum

Pay the minimum monthly payments due on your debt—plus a little more if possible. The idea is to minimize the accrual of additional debt while paying off existing debt.

1. Pew Research. A Year Into the Pandemic, Long-Term Financial Impact Weighs Heavily on Many Americans. 2021

Progress Is Important

If you have a mountain of debt, start with small debts to give you the confidence to tackle larger ones.

For example, pay off a specialty store card with a modest balance before taking on a general-use card with a much bigger balance.

However you decide to tackle your debt, make your payments on time.

A missed payment can stay on your credit report for **seven** years.

An emergency fund can potentially help protect you from taking on unnecessary debt.

Consider the State of Your Emergency Fund

An **emergency fund** is money you've saved and set aside in case of unexpected expenses.

47%

of Americans say they have rainy-day funds on hand that would cover their expenses for up to three months.[1]

1. Pew Research. About Half of Lower Income Americans Report Household Job or Wage Loss Due to Covid-19. 2020

Consider the State of Your Savings

Try to maintain three to six months' worth of living expenses in your emergency fund.

Average Monthly Expenses X **Six Months** – **Existing Liquid Savings Balance** = **Emergency Fund Balance Needed**

Tips for Building Emergency Savings

You don't need to start your emergency fund with the full amount saved.
Start small and contribute over time.

When you're feeling financially stable, you may want to build up or replenish your emergency fund as a cushion for the future.

- Factor saving into your monthly budget
- Use a portion of your bonus or tax refund
- Research ways to get paid for your skills/hobbies outside of work

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A few important takeaways…

Actions to Help You Feel on Top of Your Credit and Debt

There is no need to be overwhelmed. Take things step by step.

GET AN ACCURATE PICTURE OF YOUR CREDIT AND DEBT.

- Understand how much debt you have and where it resides.
- Be strategic about any new debt that you take on.

DEVELOP A PLAN TO ADDRESS ANY DEBT YOU MAY HAVE.

- Build your debt payments into your budget.
- Pay off the most expensive debt first.
- Pay more than the minimum.

TEND TO YOUR FINANCIAL LIFE BY CHECKING YOUR CREDIT REPORTS.

- Know your credit score.
- Review your credit *at least* once a year.

MAINTAIN AN EMERGENCY FUND TO PROTECT AGAINST TAKING ON MORE DEBT.

- Determine how much you currently have set aside for a rainy day.
- If you need to increase your savings, build it into your budget.

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CRC 3907765 (12/21)