__Credit Explained – Podcast Script__

Financial Wellness takes a little discipline, and some good advice. At Golden 1 Credit Union, we're here to help. As a not-for-profit, member-owned credit union, our main goal is to help you reach your financial goals. We are able to provide advice, tools, and resources: whether you're trying to make a major purchase, start an investment fund, or just have some peace of mind. Golden 1 is your financial partner and together we can be golden.

Hello, and welcome to the Golden 1 Financial Wellness Podcast. I'm Karla…

…and I'm Martin! Karla, we've covered a lot of topics on these podcasts. Budgets…

…taxes…

…savings accounts…

…the difference between credit unions and banks…

The list goes on and on. If you like the sound of any of those topics, go back and listen to some of our older podcasts. You won't regret it!

(both) **#humblebrag**

Today, we'd like to talk about a topic that we've referenced in past podcasts, but, surprisingly, we haven't dedicated an entire podcast to it. I'm happy we're finally doing it, but I won't take all the CREDIT for it.

Don't forget, we'll never CHARGE you to listen to our podcasts, no matter the topic.

Hopefully this will be a topic you're INTEREST-ed in.

Martin…the topic is in the title. I don't think we need to keep hinting at it.

Oh yeah…fine. I mean, this topic is all pretty routine…or as I like to say APR.

Ok, that was your last one.

That's fair. Yes, folks, today Karla and I are going to do our best to explain credit. What is it? Why do you need it? Should you be afraid of it? How do you get it?

What’s the difference between credit, a credit card, a credit union, a credit score, and a credit report?

…well, what’s the difference?

I was kind of hoping you would help me explain.

Ah, of course! Let’s start with the definition of the word “Credit”. Credit is generally defined as a contract agreement in which a borrower receives a sum of money or something of value and repays the lender at a later date, generally with interest.

So, a credit card in the simplest terms is a card that allows you to borrow a certain amount of money from a lender, usually your bank or credit union, that you intend to pay back at a later date.

Correct! A debit card, on the other hand, allows you to withdraw money directly from your checking account. Credit is borrowing money to buy something, debit is buying something with money you already have.

But we know that nothing is truly free these days, so the money that you borrow on a credit card will usually have interest added to it when you pay it back. To avoid an interest charge, try to pay off the balance of your credit card every month.

Karla, how do lenders decide how much money to let you borrow on a credit card, a personal loan, a mortgage, or an auto loan? And how do they determine how much interest to charge you?

Great question, Martin! That brings us to our second definition of credit: Credit can also refer to the creditworthiness or credit history, of the borrower.

If you’ve ever been asked “How good is your credit?” you’re essentially being asked, what your credit score is. A credit score is a numerical representation of your credit worthiness. Creditworthiness is determined by several factors including your repayment history and credit score.The higher your score, the better. Every credit card, auto loan, mortgage, or student loan, and how much you owe on each one will determine how high or low your credit score is.

A lot of credit card debt can lower your score. Late payments can lower your score. Having too many open accounts can lower your score. Having too few accounts can lower your score. Having…

…ok ok, lots of things can lower your score, but there is good news! If you make even your minimum payments on time, your score will go up! Debtors want to see that you are a reliable, trustworthy person before they let you borrow money.

Without knowing you personally, your credit score is the only thing a potential lender can use to gauge your creditworthiness. A credit score doesn't factor in things like job loss, income reduction, increased seasonal utility bills, or any other expenses that might make it difficult to make our payments on time.

Let's circle back to credit history, because it's very closely tied to credit score. The longer your credit history, the better. If you got your first credit card when you turned 18 and you're 38 now, you have 20 years of credit history, which makes you a much more appealing credit applicant than someone who is just starting out on their credit journey. Again, it shows a pattern of trustworthiness.

Negative marks in your credit history like late payments and overdrafts, can stay on your credit report for up to seven years, but credit checks performed by a potential lender, will disappear from your credit history in only two years. On the other hand, all the positive progress you've made will stay on your report forever.

So, if you're struggling now, but you can make at least your minimum payments for the next two years, you could see a dramatic increase in your credit score!

And how do you find your credit score, you may ask? Simple! You can use a tool like Credit Sense, available for free to Golden 1 account holders, or you can go to www.annualcreditreport.com to get a full, free credit report every year.

And guess what? When YOU check your credit score it doesn't count against you, because that's what's called a "soft" hit. We want you to check your score as often as you like, so you always know where you stand.

Plus, if you see something on your report that doesn't look quite right and you suspect it might be fraud, the earlier you catch it, the better!

However, like we mentioned before, if a potential lender checks your credit, that’s called a “hard” hit and it does have an effect on your credit score.

Think about it, if you’re going around applying for credit all over the place, putting multiple “hard” hits on your credit, does that make you look like a trustworthy borrower?

It might look like you’re in need of money and you’re trying to get it any way you can. Not what lenders want to see.

Martin, why is a Credit Union called a Credit Union, then? We don’t just deal with credit cards and loans.

That’s true, we don’t! A credit union is just like a bank except they are not-for-profit. That means that every member of a credit union is a shareholder. All the money that goes into a credit union helps every member get lower rates on loans and higher rates on savings accounts. Like a UNION of members that exists to help other members rather than make a profit.

But why are they called CREDIT Unions?

Because that’s what Edward Filene called them when he coined the phrase in the early 1900s.

…good answer!

We hope that you learned a thing or two about the many, many facets of credit. What it is, how to get it, how to improve it, and how to keep track of it.

Credit isn’t just one important thing, it’s a bunch of important things, and the more you know about it, the more comfortable you’ll be with it.

Thanks for joining us on our journey through credit. Once again, I’m Martin…

…and I’m Karla, wishing you financial health and happiness and, as always, reminding you all to…(both)**…Stay Golden!**