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FINANCIAL EDUCATION FROM AMERICAN CENTURY INVESTMENTS®

Yes, You Can MoneyClips eNews

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The Value of a Good Credit Score

Establishing good credit as a teenager can ease the transition to independence

KANSAS CITY, Mo. – When young adults apply for a credit card, they may know basic information about the importance of having a good credit score. However, many are unaware of the impact establishing good credit can have on life's important milestones, such as getting a job, applying for an apartment lease or securing a car loan. Beginning the process of building a positive credit score while young can help ease the transition to independence.

According Experian, at the end of 2013 young adults between 19 and 29 years old had an average credit score of 628 – more than 50 points lower than the national average and the lowest of all age groups.

Without a good credit history, it can be difficult to take on financial commitments. Lenders, insurers and others may use credit history as a factor in determining what products to offer and rates to charge. Individuals whose credit scores indicate good financial habits, including making timely payments, are likely to receive more favorable terms.

"It's impossible to establish a good credit history overnight," said Sam Goller, editor, *Yes, You Can*. "A good credit record is the result of years of creditworthy habits and behavior. The good news is, the time and energy you put into establishing a positive credit history can result in a higher credit score that over time can save you on interest charges and other expenses."

According to a 2010 Annie E. Casey Foundation report, a good credit history could enable an average borrower to save up to $250,000 in interest and other expenses over the course of their lifetime.

Yes, You Can offers the following steps to help teenagers establish a strong credit history and begin a habit of responsible financial practices that will benefit them throughout their lives.

More

Become an authorized user on a parent's credit card account. This enables students to build credit in their name without the risks tied to having a card in their name only. Work with the primary cardholder to set limits and expectations for using the card. Always review the monthly bill to understand how small purchases can add up to large balances.

Get a secured credit card. A secured credit card uses money placed in an account as collateral. The credit level will be based on income, ability to pay and the amount of the cash collateral deposit. A secured credit card can help teens build or re-establish credit. However, if the cardholder doesn't pay his or her bill, the credit card company may keep the deposit. So making monthly payments on time is just as crucial with a secured credit card as with a traditional card.

Make small purchases on a credit card. This will allow teens to build a steady payment history. The key is to make sure all purchases are paid before the due date.

Pay all bills on time. One late payment report from a creditor can harm a credit score, so a reliable payment history is very important to maintaining a good credit score.

Never carry a balance forward on a credit card. When the credit card bill arrives, pay the balance in full before the due date. By only paying the minimum and carrying a balance forward, the cardholder adds interest to the bill, which increases the amount paid for items charged to the card.

Don't apply for multiple credit cards at one time. Every time an individual applies for a credit card, or loan, his or her credit history receives a hard inquiry. Too many of these can negatively impact credit.

Don't close unused or paid-off credit cards. The unused credit can actually benefit your credit utilization ratio, which is the amount of outstanding balances on all credit cards, divided by the sum of each card's limit.

Never use a credit card to make unaffordable purchases. Only put items on a credit card if they could be paid for today in cash. Avoid committing future earnings by putting the expense on a credit card. Failing to pay the full balance when it is due can result in additional interest expenses.

Regularly review credit scores. Get a free credit report by visiting annualcreditreport.com.

Interview Tips

- Poll classmates to see how many of them have their own credit card, or are an authorized user on a parent's card.
- Speak with a local banker or loan officer for an additional quote on the benefits of good credit.
- Use an online interest calculator to create and add an example of interest payments should a cardholder carry a balance forward or not pay a bill.

About *Yes, You Can*

Financial education has always been important to American Century Investments, which believes one of the greatest gifts it can offer is the opportunity for children and young adults to learn how to achieve financial independence.

Yes, You Can is based, in part, on the beliefs of Jim Stowers, founder of American Century Investments and co-founder, with Virginia Stowers, of the Stowers Institute for Medical Research. For more information on the *Yes, You Can* program, visit http://www.YesYouCanOnline.info.

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