FRE | FEDERAL RESERVE EDUCATION

Three Cs of Credit

Princeton Williams
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score:
660
score:
716
Why Is
Good Credit
Important?
How you handle your
finances affects more
than just your ability
to borrow.
score:
834
score:
434

WHAT IS CREDIT?

Any arrangement in which you receive goods, services, or money in exchange for a promise to repay at a later date.

MAINTAINING A GOOD CREDIT HISTORY IS CRITICAL TO FINANCIAL STABILITY

- Pay all of your credit obligations on time.
- Establish a relationship with a financial institution.
- Monitor your credit history regularly to ensure accuracy.
- Get a free credit report each year at annualcreditreport.com.

CREDIT HISTORY

Your credit history says a lot about you

PAY ON TIME

More readily approved for credit
Offered lower interest rates
Given a higher credit score

PAY LATE

Sometimes denied credit
Offered higher interest rates
Given a lower credit score

CREDIT REPORT

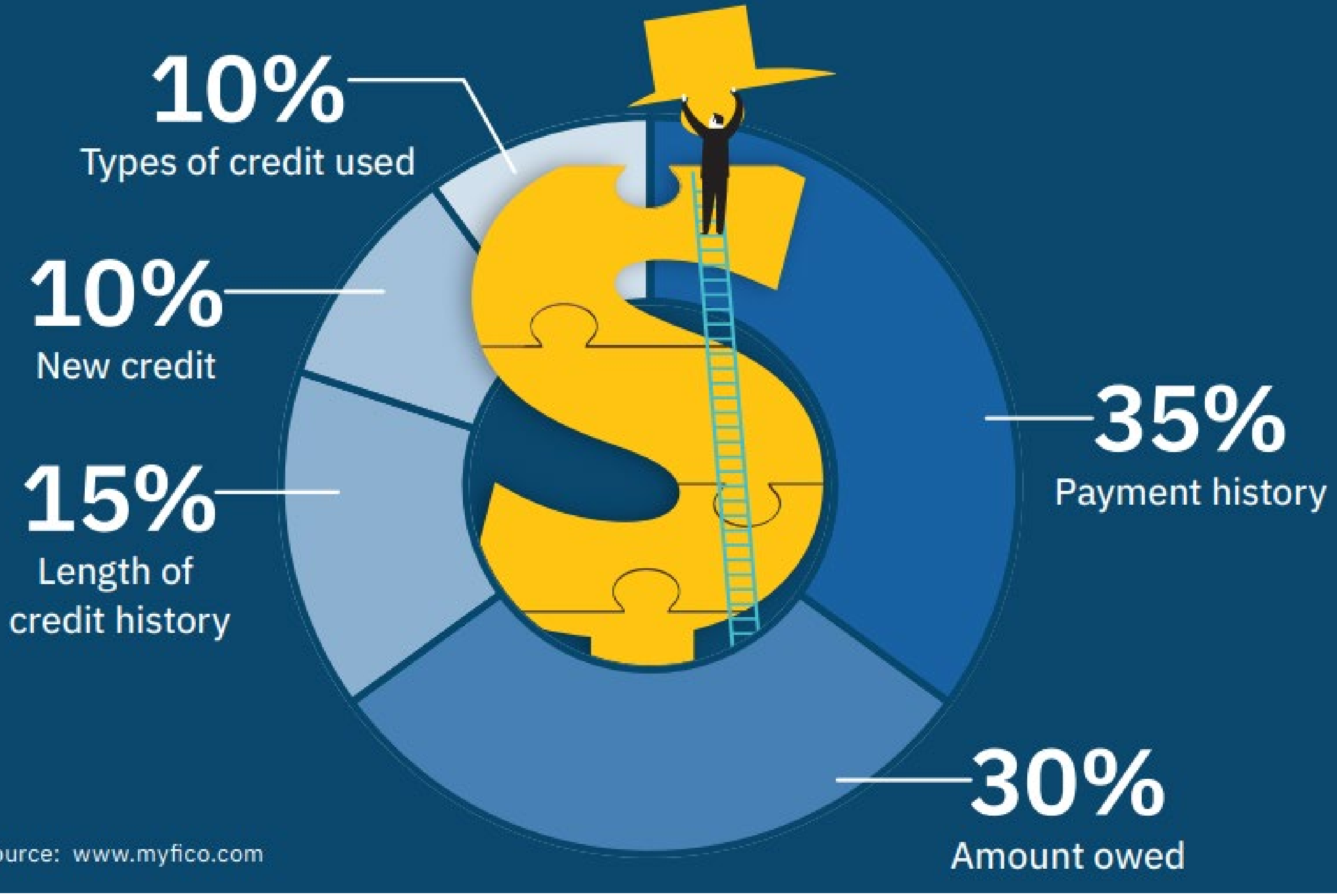
Is a credit report the same as a credit score? NO

A credit report is a record of your credit history. It can show lenders and others how you manage your financial responsibilities.

CREDIT SCORE

What makes up your credit score?

A number assigned to you indicating your ability to repay a loan.



Source: www.myfico.com

Is a higher score really better? YES

Sample interest and payment for a $20,000 car loan paid over 60 months

Score	Interest rate	Monthly payment	Total interest paid
720–850	3.93%	$368	$2,063
660–689	7.62%	$402	$4,111
500–589	16.46%	$491	$9,485

Source: Sample loan savings calculator results from myfico.com, as of 3/4/2021

Three Cs of Credit

Capacity, Character, and Collateral

Capacity

What is the individual’s ability to repay the loan?

- Amount and sources of income
- Steadiness of income (e.g., years with same employer and/or stable dividend income)
- Amount of monthly living expenses (including debt, alimony, or child support payments)
- Number of dependents
- Level of education and training

Character

What is the individual’s reliability to repay the loan?

- Credit score (which measures an individual’s credit risk based on his or her bill-payment history, length of using credit, and credit balances as a percent of his or her credit limits and other measures)
- Years living at the same address

Collateral

What assets does the individual own that could be sold to repay the loan?

- Amount of financial assets (e.g., savings, stock and bond holdings, and/or a 401(k) account balance)
- Market value of real assets (e.g., land, home(s), car(s), boat(s), electronics, jewelry, antiques, and/or precious metals)

You are the loan officer!

Make sure you have 11 characteristic cards and one loan request card.

- Annual Household Income
- Education
- Equity in Home
- FICO Score
- Length of Credit History
- Long-Term Financial Assets
- Market Value of Other Real Assets
- Monthly Debt Payments as a % of Monthly Income
- Short-Term Financial Assets
- Years Working for Current Employer
- Years Living at Current Address

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An Intro to FRE.org: One Site for All Your Economics & Personal Finance Needs

with the Federal Reserve Education Team

Why FRE.org?

One-stop shopping for you

Find all resources in one place rather than visiting several Federal Reserve websites.

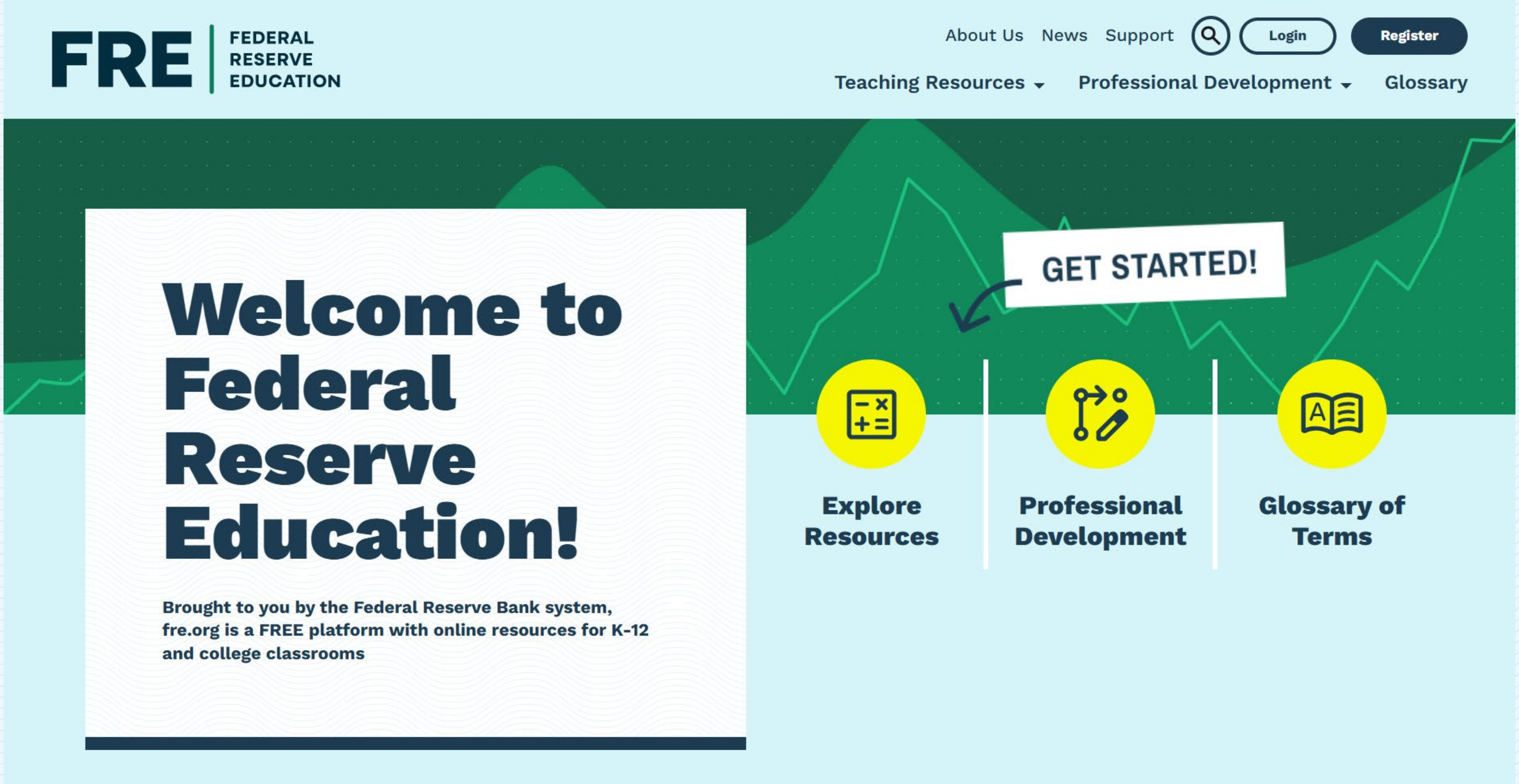
Add resources to the LMS you already use

Easily add resources to your LMS instead of directing students to another website.

No data privacy issues

Know that we value data privacy and security and don't save any student information, reducing barriers to using our resources.

Key Website Features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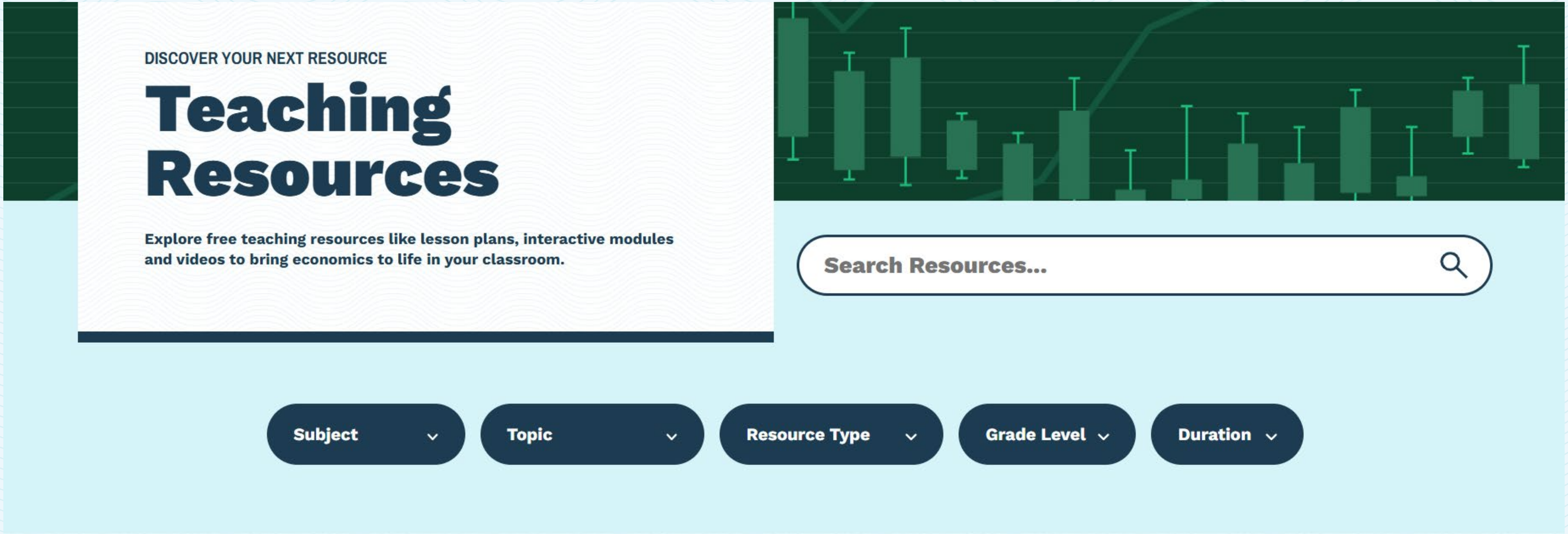
Professional Development
Glossary of Terms

Explore Resources



Available Resources

- Audio Q & As
- Curriculum Units
- FRED Graphs
- Infographics & Comics
- Lessons & Activities
- Modules
- Reading Q & As
- Video Q & As