FINANCE WITH THE FRIDAYS TREASURER

A Financial Literacy Newsletter

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Finance Fridays
is a publication of the N.C. Department of State Treasurer. Treasurer Brad Briner is focused on preserving, protecting and sustaining the states pension and healthcare plans. Briner was most recently the Co-Chief Investment Officer for Willett Advisors and has held positions at Morgan Creek Capital, the UNC Management Company, ArcLight Capital and Goldman Sachs.



Bottom Line With Brad

CREDIT SCORES

How do you know when to trust someone? You know the answer right away with certain people – family, close friends and others with whom you have regular contact. You've seen them keep their promises even when it was painful for them to do so… or you have seen them take advantage of other people's trust. Either way, you know whether or not you can put your trust in them.

"I grew up in the 1980s, and I remember my parents telling me repeatedly about "stranger danger."

But what about strangers? As you know by now, I grew up in the 1980s, and I remember my parents telling me repeatedly about "stranger danger." The big lesson from that - it is good to be skeptical of people you don't know, particularly if they are asking you for something.

That's the position that banks and other lenders find themselves in – strangers asking them for something. In this case, it's money. Perhaps a loan for a house or car, or to entrust them with a credit card. In any of these scenarios, the lender needs to figure out if they can trust this stranger.

Enter the credit score. Historically, banks made determinations of who they would lend to based on reputation, leading to incredibly subjective outcomes and far too much lending to people they knew, instead of to people who were more likely to pay them back. Fair Isaac Corporation was a pioneer in the credit scoring industry, and the acronym FICO score that you may have heard comes from that company (as an aside, if you have a mental image like I do of some all-knowing person with a long grey beard

named Isaac who is very fair in his assessments, that isn't quite right, the name comes from the two last names of the founders).



FICO Founders Bill Fair and Earl Isaac

So how do these scores work and why do they matter? They are designed to provide relevant information to the basic question a lender wants to know – is this stranger going to pay me back? It makes sense then that your history of paying other people back would be very relevant. As would your income level and the consistency of what you have made in income over time. As would be what you are buying with the loan, and so forth. The more information they have about your financial trustworthiness, the higher the score.

Today, these scores are incredibly important in whether the lender lets you borrow money, and the interest rate they charge if they do. If you are able to come up with a down payment, most people will be able to find a lender to buy a house. But what that lender charges for your mortgage can vary by 2% or more depending on your credit score. If your interest rate is on the low side - it is because you are considered more likely to pay it the loan back than others; the opposite is true as well, of course. Simply put, a better credit score means more money in your pocket and less money on interest payments.

I hope you enjoy this month's issue and that the rest of your summer is great – hard to believe school is starting in only a few short weeks. And for those who are taking out student loans to pay for the fall semester, I hope that your credit score is very strong!





By Brandon Watson
Chief Financial Officer, N.C. Department of State Treasurer
Financial Operations Division

Credit scores ultimately focus on the dreaded, four-letter word d-e-b-t. While most people don't want to be "in the red" and making monthly payments, all debt is not bad debt. Let's demystify debt by looking at the purpose of it - and the potential return on it- to decide if it is good debt or bad debt.

What is good debt? Good debt is the type accumulated for the purchase of an item or service that will increase in value or lead to expanded resources. Examples of this are a mortgage for the purchase of a home or investment property, education loans and business loans. These types of debt are generally accumulated under the premise of a monetary return that will hopefully be greater than the debt. Homes generally increase in value, which provides equity, which you don't get when renting. Education usually leads to better job prospects and higher income. Business loans are normally used to stimulate growth and increase their profit.

So, what is bad debt? Bad debt is the type that is accumulated for the purchase of something that decreases in value or does not offer a return. Examples of this are store credit cards used to purchase clothing or electronics, car loans and loans taken out to fund vacations. Clothing, electronics and cars generally will decrease in value over time. Additionally, credit cards tend to have high interest rates, further putting them in the bad debt category. While a vacation creates wonderful memories and a few stress-free days, there is normally no tangible value once it is over. It may not be possible to avoid all bad debt. For most people, financing a car is a necessity. The key is to be aware of how much bad debt you are taking on and minimize it as much as possible.

Good debt can become bad debt, however, when it stresses your monthly budget or has a low potential return. Buying more home than you can reasonably afford or taking a loan out for a degree in a low-paying career field can make seemingly good debt turn into bad debt. You should consider the full picture of the purpose of the debt, its potential return and your ability to pay the debt before you sign on the dotted line.

UNDERSTANDING CREDIT SCORES: WHAT THEY ARE AND HOW TO MAKE YOURS BETTER





By: Phyllis Caldwell-George
President and CEO
Financial Pathways of the Piedmont

When most people hear the words “credit score,” they think of a big purchase like buying a car or getting approved for a mortgage. But your credit score plays a role in far more than just financing a home. It’s a snapshot of your financial reputation, and it can follow you into job interviews, insurance rates, and even rental applications. Understanding how credit scores work is a powerful first step toward financial freedom.

What Is a Credit Score?
A credit score is a three-digit number typically ranging from 300 to 850 that represents how risky or trustworthy you are as a borrower. The higher the score, the more confident lenders and other decision-makers feel that you’ll repay your debts on time.

The most commonly used credit scores come from two companies: **FICO** and **VantageScore**. While they have slightly different formulas, they both aim to answer the same question: “How likely is this person to repay what they borrow?”



Why Credit Scores Matter

Your credit score affects you more than you might think. It can impact:

- Whether you get approved for a credit card or loan
- The interest rate you’ll pay (lower is better!)
- Your ability to rent an apartment
- Your car insurance rates
- Even your ability to get certain jobs (especially if they involve handling money)

What Makes Up a Credit Score?

There are a few different scoring models, but the most common one (called FICO) looks at five key things:



35%

1. Payment History (35%)

This is the most important piece of your credit score. Have you paid your credit cards, loans, or other debts on time? Even one missed payment can lower your score.

30%

2. Amounts Owed (30%)

Also known as credit utilization. It's not just how much debt you have—it's how much of your available credit you're using. For example, if your credit card has a $1,000 limit and you owe $900, that's a 90% utilization rate, which can hurt your score. Experts recommend keeping it under 30%.

15%

3. Length of Credit History (15%)

How long have your accounts been open? Older accounts in good standing help boost your score. That's why it's often wise to keep older credit cards open, even if you don't use them much.

10%

4. New Credit (10%)

Opening a lot of new accounts in a short time can lower your score, especially if you're new to credit. Each time you apply for credit, a "hard inquiry" is made, which can slightly reduce your score.

10%

5. Credit Mix (10%)

Do you have a variety of credit types—like credit cards, auto loans, or a student loan? Having different types of accounts shows you can manage a mix of credit responsibly.

Simple Ways to Build or Improve Your Score
If you're just starting out or recovering from past mistakes there are concrete steps, you can take to boost your score:

- **Pay all your bills on time.** Set reminders or autopay to avoid late payments.
- **Keep your credit utilization low.** Try to use less than 30% of your available credit.
- **Don't close old accounts.** As long as they're not costing you fees, older accounts help your score.

The Bottom Line
Your credit score is just one piece of your financial picture, but it can open doors or close them. The good news? You don't need to be perfect.

No matter where you're starting, your financial future is in your hands. Take small steps today, and they'll lead to big opportunities tomorrow.

Cracking the Credit Code



Tackle the score That unlocks Your financial future



By: Joe Kauffman
Leader of Credit Karma

Credit scores are more than a three-digit number- they can mean accessibility- for big purchases or when need a loan. A poor credit score can drain your wallet and is like a high-interest penalty on anything you have to finance. For example, a $10,000 personal loan with a 5-year term will cost someone with a score below 600 nearly $4,000 more in interest than someone with a 720+ score.

Yet, the credit system can feel like a black box. Lenders rely on multiple credit scoring models, each using separate algorithms to weigh factors like payment history, credit utilization and length of credit history. Different scores are generated using data from one of the three major credit bureaus: Experian, Equifax or TransUnion. However, lenders aren't required to report credit account data to all three of the bureaus, which leads to variations in your credit scores. As confusing as that may seem, don't get hung up on the specific number. Instead, focus on proven habits that build and maintain strong credit over time.

Know your credit, grow your future

It might seem simple, but the crucial first step to building strong credit is knowing where you stand. Make it a habit to regularly monitor your credit scores and credit reports, which you can do for free on Credit Karma and a number of other websites. This keeps you on top of your credit health and helps you protect yourself by keeping you informed of potential errors or suspicious activity – like duplicate accounts or credit lines you didn't open – that you might need to dispute.

Overcome a thin credit file

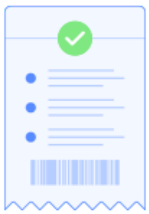
Whether you're just starting your financial journey, are new to the U.S., or have had limited access to credit, there are ways to establish your credit from the ground up.



Become an authorized user.
Ask a trusted friend or family member with a strong credit history (especially someone with a high credit limit and a consistent record of on-time payments) to add you as an authorized user on their credit card. This can significantly boost your credit by extending your available credit and adding positive payment history to your report. Just be sure they manage their account responsibly, as their missed payments could affect your score.

Apply for a secured credit card.
These cards are designed specifically for those with limited or no credit history. Unlike traditional credit cards, you'll pay an upfront security deposit (typically ranging from $49 to $200), which then becomes your credit limit. By making small, regular purchases and paying them off on time, you'll be on your way to establishing a positive credit profile.





Make your positive financial habits count.
Everyday expenses like rent, utilities, and phone bills reflect real financial responsibility, yet they often go unreported to credit bureaus. Fortunately, several services allow you to report these on-time payments, helping you build credit using the good habits you've already established.

Make a credit comeback

You've likely heard the basics of maintaining good credit: pay your bills on time and keep your credit usage low. While that advice is sound, it can feel out of touch when you're deep in debt and struggling to rebuild. Financial setbacks happen. What matters most is taking action because the worst thing you can do is nothing. If your credit card balance feels overwhelming, making any payment, no matter the amount, is a step in the right direction. There are ways to course correct.



Be proactive.
Tracking your cash flow in and out can provide a holistic view of your financial standing to help you better manage your monthly payments. If you find yourself saddled with your debt, reach out to your lender directly. Many lenders will let you move your due date to a different time of the month and may even allow you to negotiate a lower payment.

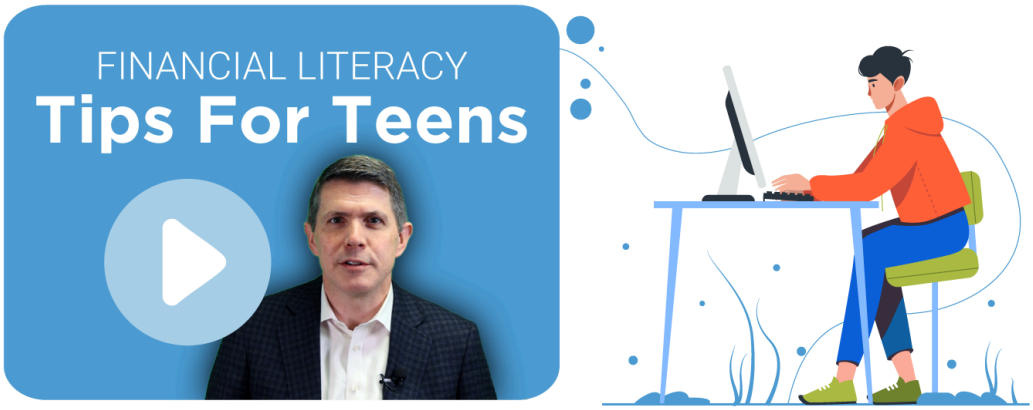
Make your debt more manageable.
If you are carrying balances on multiple credit cards, or you're carrying a meaningful balance on a single card with a high interest rate, look into a balance transfer card. These often offer 0% interest for a set period of time – typically 12 to 21 months – giving you a chance to consolidate debt, reduce interest costs, and pay down what you owe faster. Be mindful of transfer fees and pay off the balance before the promo period ends. Alternatively, you can consolidate your high-interest debt into a personal loan with potentially a much lower rate. This will simplify your payments and save money on interest over time.





Use a credit builder product.
Explore tools like a credit builder plan for low-risk ways to demonstrate responsible credit behavior through small, manageable payments that are reported to the credit bureaus.

It's important to keep score when it comes to your credit. Taking small, consistent steps like managing your balances and regularly checking your credit can lead to meaningful, long-term progress.





Buying a home has long been regarded as “the American Dream.” Owning a home is a source of pride, provides stability, and offers a chance to build wealth (a mortgage balance is reduced over time through payments while property values have historically risen).

Financing is a critical step in the home buying process. Lenders consider the amount of down payment, a borrower’s income, and above all else their credit rating when deciding the interest rate to charge if they approve the mortgage application. Credit ratings are scores issued by the credit agencies who keep an extensive database that includes a person’s history of borrowing and repaying on time (or not on time). Higher scores are earned through having a history of borrowing money and making timely repayment. Lower scores are the result of limited credit history, late payments, too much debt, loans that were turned over to collection agencies, or worse. Scores range from 300-850 and are generally rated as Poor (300-579), Fair (580-669), Good (670-739), Very Good (740-799) and Excellent (800-850).

Mortgage lenders rely heavily on these credit scores for two main reasons. First, they have proven to be “predictive” over a long period of time. Millions of borrowers make mortgage payments each month and very few with high credit scores when they bought their homes are ever late. The second reason lenders rely on credit scores is that the number allows the lender to be consistent when judging if the borrower is financially responsible rather than using their own impressions (or biases).

So what does all of this really mean in terms of the cost to buy a home? Consider this example…

$300,000 - $15,000
(5% down payment)
= $285,000 mortgage loan

$285,000 @6.25%
$1,755 monthly payment

$285,000 @7.00%
$1,896 monthly payment

Two people who earn the same income want to buy a house that costs $300,000 and both have savings to make a 5% down payment. Buyer One has a 750 credit score and Buyer Two has a 650 credit score. Buyer One is offered a thirty year mortgage with a 6.25% fixed rate while Buyer Two is offered a 7.00% rate for the same term. The difference of .75% appears small but is really huge.

The difference in payment is $141 a month…but when you consider the difference over 30 years you see how much more the lower score is costing Buyer Two.

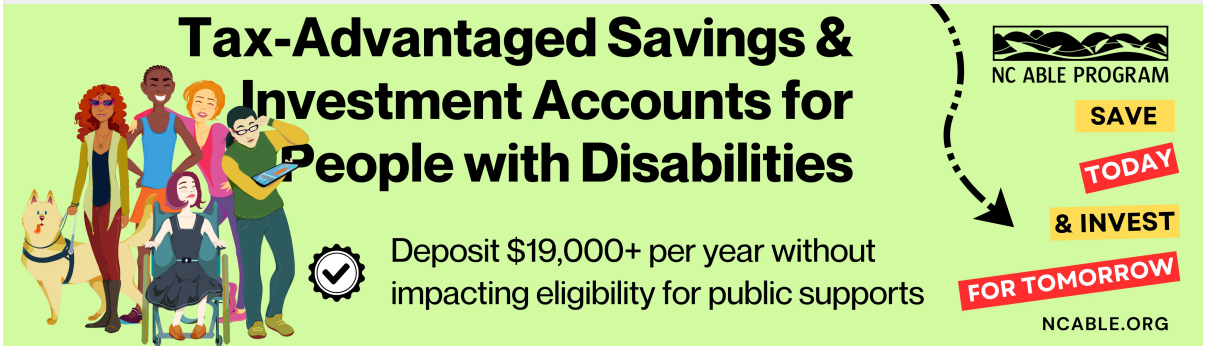
There are a variety of services that provide credit score monitoring and coaching to improve your score. These can be valuable, but your lender is the best source for information and guidance. Consulting with a mortgage lender early in the planning process to learn how to increase your credit score before applying for a mortgage is the best way to position yourself to be Buyer One in the example above.

Investing the time and effort to earn a credit score lenders will reward with a lower interest rate could save you tens of thousands of dollars and is an important step toward making the dream of homeownership come true.

$1,755 x 360 months
(30 years)
= $631,800

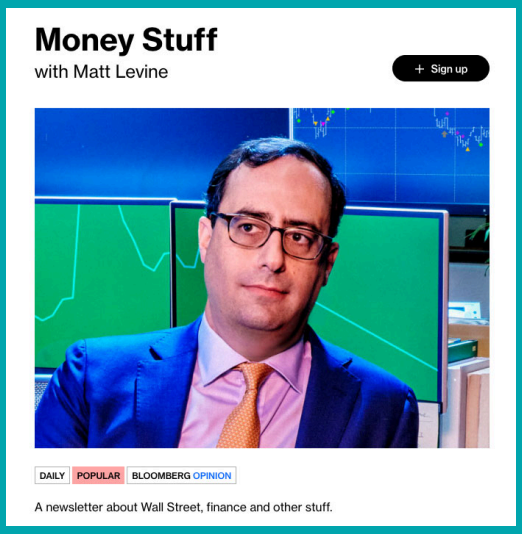
$1,896 x 360 months
(30 years)
= $682,560

The difference is $50,760!



Recommended Reading:

This month Brad is recommending you sign up to get Matt Levine s “Money Stuff” newsletter. This free newsletter is a daily take on Wall Street, finance and other money related matters. It’s a great way for you to get more familiar with financial literacy issues- and a better understanding of how all insight we offer each month plays into the financial world around you. You can sign up for the newsletter here: Money Stuff.





TEST YOUR KNOWLEDGE

For Teens:

What is a credit score and what is it for?

- A. Credit scores show how much money you are allowed to use when wanting to pay for something using a credit card.
- B. A credit score is a number that shows how likely you are to pay back borrowed money, based on your past financial behavior.
- C. Credit scores tell you how many credit cards you can get.

What age do you need to be to get a credit card?

- A. 18, but you may need proof of income or a co-signer.
- B. 21, but you must show proof you attend college or work full-time.
- C. 16, but you must be in school and work a part-time job.

What would the monthly payment be on a $4,200 debt at 14.99% interest if you wanted to pay the debt completely off in 42 months?

- A. $129.12
- B. $755,496
- C. $162.50

For Adults/Seniors:

What is the single best thing you can do to help build a good credit score and to keep it once you have it?

- A. Only use credit for big purchase items
- B. Pay my bills on time
- C. Keep balances on all accounts low

Julian has a credit score of 780. If a 30-day late payment causes a 90-point drop, what percentage of his credit score did he lose?

- A. 12.2%
- B. 11.5%
- C. 8.3%

How long does a 60-day late payment remain on your credit report?

- A. I wouldn't know, I pay my bills and my bills are paid.
- B. 2 years
- C. years

Click here for the answers.

Sources

Money Math for Teens: Credit Score
7 Questions to Test Your Credit Score Knowledge | Northwestern Mutual
Free Credit Score Quiz: Test Credit Knowledge | QuizMaker

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Contact us with questions about financial literacy or suggestions for topics.

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