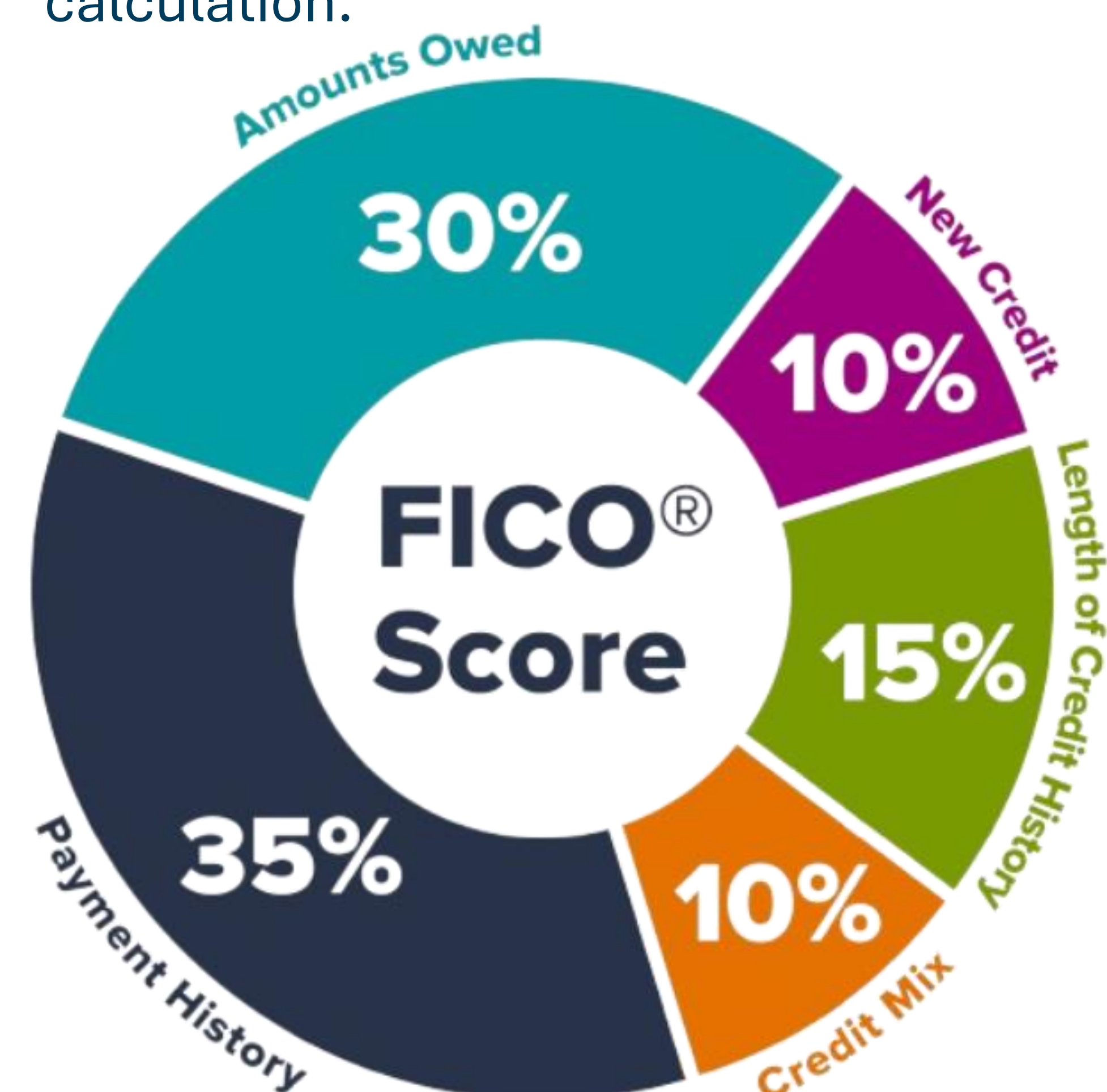




## Credit Score Basics

Credit scores are calculated from five main factors: payment history, amounts owed, length of credit history, credit mix, and new credit inquiries. These factors help explain why certain actions improve or reduce a score.

- Checking your own credit score is a soft inquiry. Soft inquiries do not affect the score.
- Carrying a balance does not help credit score growth and leads to higher interest costs.
- Closing credit cards reduces available credit and can shorten credit history length.
- Payment history and amounts owed make up the biggest share of the score calculation.



## Minimum Payment Trap

Minimum payments prevent late fees but barely reduce the principal balance. They stretch repayment over long periods, and high interest increases the total amount paid even on small purchases.

- 51% of cardholders are confident that they can pay their next bill in full.
- The minimum payment effect leads people to pay less than they otherwise would
- Minimum payments slow principal reduction and cause interest to accumulate each month
- Small balances can take years to repay when only minimum payments are made.



## Debit vs. Credit

Debit and credit cards serve different roles in personal finance. Debit uses existing funds from a bank account, while credit cards allow consumers to borrow money that must be repaid. Credit cards build credit history, while debit transactions do not affect credit scores. Because credit separates spending from payment, it can encourage overspending.

- Debit transactions are limited to available account funds
- Credit cards provide revolving borrowing, allowing purchases before payment occurs
- Credit card usage affects credit scores through payment history and utilization
- Carrying card balances results in interest charges that increase total borrowing costs.



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- SWBC Blog/FICO <https://blog.swbc.com/personalhub/how-does-your-credit-score-stack-up>
- Forbes Advisor <https://www.forbes.com/advisor/credit-cards/credit-card-statistics-mar-26/>
- Experian <https://www.experian.com/blogs/ask-experian/credit-education/score-basics/what-affects-your-credit-scores> <https://www.experian.com/blogs/ask-experian/debit-card-vs-credit-card-how-are-they-different/>

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- Northwest Bank <https://financialwellnesscenter.northwest.bank/credit-and-debt/debt/article/avoiding-the-minimum-payment-trap>