



Responsible Credit

College students are a main target group for banks and credit card companies. You are part of a desirable demographic group because companies hope to create brand loyalty that may last a lifetime of spending. The ease of getting credit makes it all the more important for you to know how to handle credit responsibly.

Students need to be financially literate, so they can build a healthy credit profile that will serve them well into their careers and beyond.

Some basic principles follow.

What is Credit?

Credit refers to a sum of money that a person may borrow against. Credit is usually extended based on the individual's ability to repay the credit, with some interest. A person with "good credit" is one who has not borrowed more than he or she can handle, who repays creditors in a timely way, and who has a solid financial reputation.

The trick to managing credit well is to ensure that financial health is maintained both in the near-term (the "now") and the far future (years into the future).

A Healthy Credit Score

Credit scores are three-digit numbers that represent a person's credit worthiness.

Maintaining a healthy credit score has positive effects in negotiating deals with mortgage lenders (for car loans and other debts), insurers, creditors, landlords, and potential employers. Credit scores are viewed not only as an indicator of financial soundness but also of security risk and trustworthiness. More than a third of employers conduct credit checks on prospective employees. Insurance companies set premiums in part based on credit-worthiness, as indicated by credit scores.

Credit scores are based on a number of financial factors: the individual's bill payment history, the amounts of moneys owed, the amount of credit available, the types of credit available, the length of credit history, and the new credit applications. Personal information like income and occupation is not considered.

The FICO score estimator may help users "ball park" their credit scores, but these are just broad generalities.

Free Annual Credit Reports

People have a right to get their credit report annually at [AnnualCreditReport.com](https://www.annualcreditreport.com) (<https://www.annualcreditreport.com/cra/index.jsp>) for a free report. (Make sure you have

accessed the correct site, as many phony sites exist. Protect your personal financial information.) Asking for a personal credit report will not hurt the credit score.

The three credit agencies—Experian, TransUnion, and Equifax—all maintain credit scores on American consumers, and they use different formulas to calculate the various scores.

Ways to Attain Healthy Credit Scores

Use credit sparingly. Avoid excessive spending. Personal finance writers suggest not using more than 30% of the available credit.

Avoid applying for many credit cards or loans as credit inquiries can result in a deduction of points from the credit score.

Do not cancel multiple credit cards as these will lower your available credit. Old accounts may help establish a long credit history.

Apply for secured credit cards only, not those from companies that fail to set spending limits. Choose credit card companies with solid reputations.

Pay your credit card debts on time. Ideally, credit cards (with their very high interest rates and charges) should be paid off in full every month.

Bills should be paid off regularly as well. This involves rent, utilities, medical bills, cell phone bills, insurance bills, and credit card repayments. Maintain a strong payment history. Some credit cards may raise interest rates on all outstanding debt based on late payments to other creditors. Late payments may remain on credit reports for seven years; bankruptcies may appear for ten years.

Avoid bouncing checks. Bounced checks will affect credit scores.

Paying Attention to Credit Reports

Pay attention to the contents of your credit report. Correct errors in the credit report. Work with the creditor to make sure that there are no mistakes. Notify the credit bureau by sending a certified letter and copies of relevant supporting documents. Once a correction has been made, the credit reporting agency must send you a copy of the new report as well as a copy to anyone who requested your credit report in the prior six months.

If you've been the victim of identity fraud, contact the three credit reporting bureaus right away. See if they can put a "freeze" on your account to prevent further abuse of your credit history.

Debt Counseling

Before engaging the services of a debt counseling company, be sure that it is legitimate by checking it against the Better Business Bureau Online. Not all the companies in this field are legitimate. The companies you work with should not have a large upfront fee. They should be accredited. Avoid those with unrealistic promises.

If you have a difficult time paying minimums on bills and credit cards or are consistently late with bills, it may be a good idea to contact a legitimate debt counseling company.



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