



# College and credit: Tips for managing your money

## Financial Planning

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In these difficult economic times, many of today's college students are turning to credit cards to finance their college education, using them for everything from everyday necessities to books and tuition. Unfortunately, this can result in an excessive amount of debt.

Young people are frequently unaware that their bill paying habits will affect their credit history. Many

graduates do not think they need to worry about their credit score until they apply for a mortgage to buy a house. So it can come as a shock when they find out that potential landlords, employers and even utilities companies routinely access credit scores as part of their application process.

Learning how to manage student loans, credit cards and other debt is essential for college students. Establishing financial skills early on and working to build a good credit standing will affect their lives both now and in the future.

A person's credit history begins with their first credit card. And good credit can help savvy college graduates save money in the following situations:

- **Applying for a Job.** Potential employers now routinely check people's credit history as part of the hiring process. With so many applicants vying for positions in today's tough economy, a solid credit history may provide a competitive advantage in the job market.
- **Renting an Apartment.** Landlords often rent to the applicant with the best credit history. In many urban areas, available housing is at a premium. Those with a good credit history will more easily find an apartment to rent and may avoid a larger security deposit and/or the need to have the lease co-signed by a guarantor, such as a parent or an employer.
- **Signing Up for Utilities.** Local phone, cable, electric and gas companies will on occasion waive cash deposits for customers with solid, established credit histories.
- **Securing Loans.** Having a better credit history makes it easier to get a car loan or mortgage, often at a more competitive interest rate.
- **Insuring a Car or Home.** Having good credit can ultimately save consumers money on auto and homeowners or renters insurance, through a stronger credit-based insurance score.

## Insurance scores vs. credit scores

Insurance scores are different from credit scores and it is important to understand the distinction. Your credit score is a number that represents your overall credit worthiness; predicting the likelihood of delinquency or non-payment of credit obligations. It encompasses everything you have ever done credit-wise, from your very first credit card to the bills that you pay. Whether you are buying a house, applying for a credit card or looking to purchase a car, your credit score will factor into these decisions.

Your insurance score, on the other hand, is based in part on your credit score, but also includes other factors pertaining to your insurance history. For example, with auto insurance, information about age, gender, income, the number of car insurance claims you have made, Department of Motor Vehicles points, your timeliness with payments, etc. all factor into the equation that determines your score. Insurers use this score to determine whether you are a good risk to insure.

## Developing a financial plan

In order to develop a good credit rating, parents and students need to work together on a financial plan for college from the beginning. Specific educational expenses including tuition, room and board, and books and fees can be viewed as "good debt" and can be covered through student loans, grants and the like. Day-to-day college expenses, including personal needs, transportation costs, telephone and other incidentals, are the types of expenses that students should endeavor not to charge on credit cards.

In most cases, college is the first opportunity for young people to make independent financial judgments. Carrying high, unpaid balances is one of the quickest ways to incur too much debt and fall behind in payments. If college students plan to use a credit card regularly, they should have limits and know ahead of time where the money will come from to pay the bill at the end of the month.

When deciding on a credit card, students should read the fine print and shop around for the best terms. Look

for cards that:

- Have an annual percentage rate (APR) at or below 15 percent
- Offer a grace period of at least 25 days
- Feature no annual fee

To develop good financial habits, the I.I.I. suggests that students:

- **Plan and stick to a budget.** Living within a budget is an important skill to master.
- **Pay credit card bills on time.** Not only will paying bills promptly start to build a solid credit history, late payments can also be costly, as they include stiff penalties and may result in an increase in the annual percentage rate (APR).<sup>1</sup>
- **Use credit responsibly.** Remember, credit is a loan<sup>2</sup> that will need to be repaid with interest.<sup>3</sup>
- **Keep in touch with creditors.** If students change residences and forget to tell their creditors, a series of lost bills can result in a black mark on a credit report. Such black marks stay on credit reports for seven years and can significantly lower a credit score. Most students on campuses today have computers, so they can take advantage of electronic billing and payment in order to avoid lost bills.<sup>4</sup>

## How to improve your credit score if it has been damaged

- **Do not pay someone to “fix” your credit history.** Some credit repair firms promise, for a fee, to get accurate information taken out of your credit report. Accurate information cannot be deleted from your credit report. They may also promise to fix your credit report by challenging information it contains, but they charge you a fee to do so. This is something you can do for yourself without paying the fee.<sup>5</sup>
- **Create a plan to improve your credit over time.** Pay your bills on time. Pay at least the minimum balance due, on time, every month. If you cannot make a payment, talk to your creditor. Work to reduce the amount you owe, especially on revolving debt like credit cards.<sup>6</sup>
- **Do not max-out your credit limit.** As a general rule, keep limits on credit cards below 50 percent to avoid the risk of hurting your FICO<sup>®</sup> score.<sup>7</sup>
- **Limit the number of new credit accounts you apply for.** New applications for credit in a short time will generally lower your credit score.<sup>8</sup>
- **Consider the APRs of your credit cards.** APRs are not currently reported by credit card companies to the credit bureaus, and therefore they cannot be explicitly considered when computing your FICO score. However, you should know the APR of all your cards so you can add debt to a low APR card and pay it off from a high APR card. Paying off cards with higher APRs devotes less money towards interest, and leaves more money available to pay down your balances.<sup>9</sup>
- **Keep at it.** Your credit history will improve over time if you make changes now. If you manage your credit obligations effectively, your credit-based insurance score will improve as well.<sup>10</sup>
- **Consider credit counseling.** If you find yourself in a financial bind, consider credit and money counseling. Information is available from the National Foundation for Credit Counseling or the American Center for Credit Education. Students should also consider taking advantage of the financial literacy programs that are offered by many colleges and universities. Information on how to improve your credit score used by lenders is available at MyFico.com.<sup>11</sup>

- **Review your credit report regularly.** You have the right to dispute any information in your credit report. By law, the credit reporting agency must provide you with a free copy of your credit report and must correct inaccurate or incomplete information at no charge to you.

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## Additional resources

The three national credit reporting agencies are:

^ ^ ^ ^ - Equifax: ^ <http://www.equifax.com/> ~ 1-800-685-1111

^ ^ ^ ^ - Experian: ^ [www.experian.com](http://www.experian.com) ~ 1-888-397-3742

^ ^ ^ ^ - TransUnion: ^ [www.transunion.com](http://www.transunion.com) ~ 1-800-888-4213

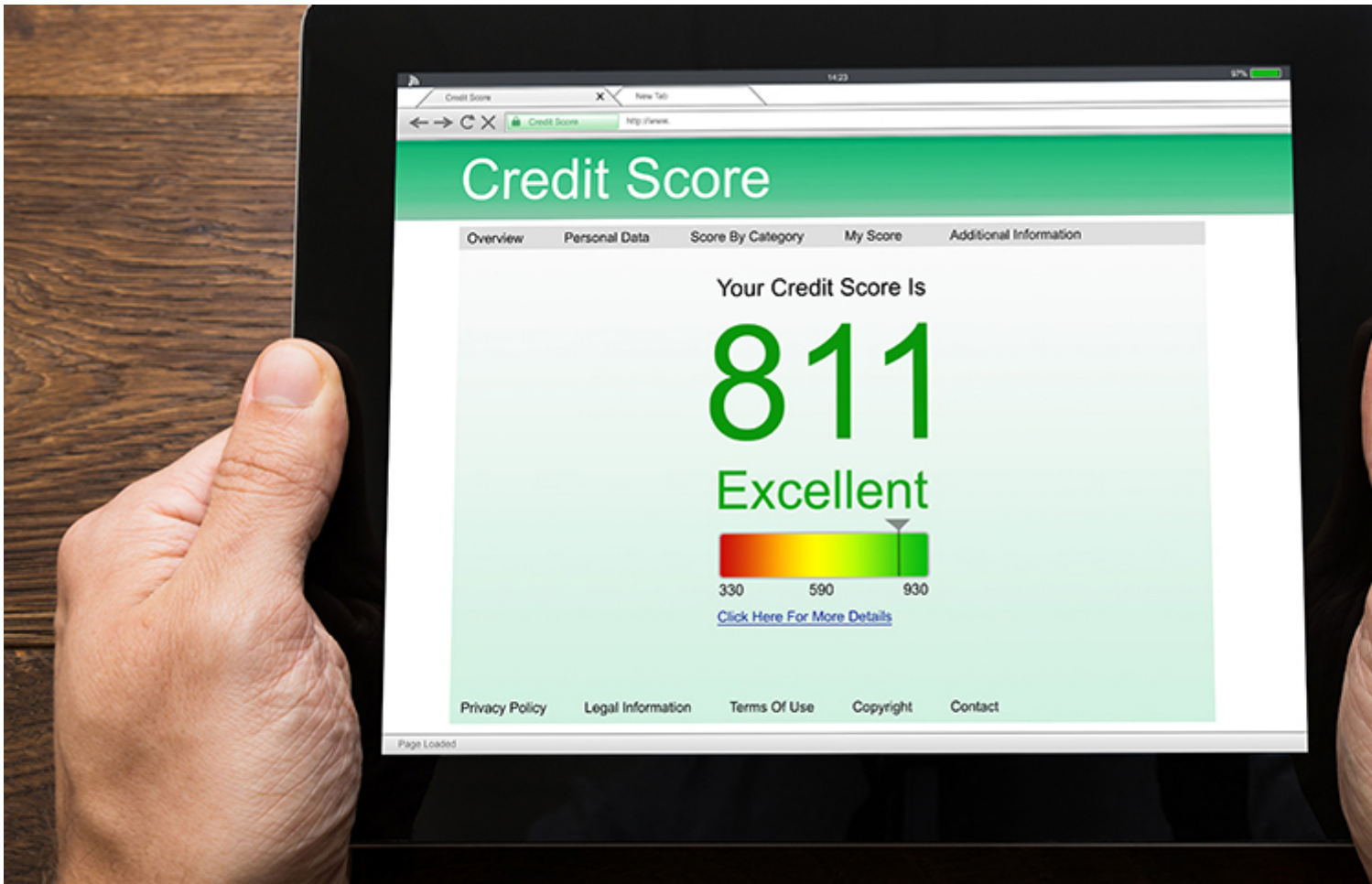
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