STUDENT’S GUIDE to CREDIT

Over 50+ tips on how to navigate the credit system
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Welcome
Welcome

Welcome to CreditRepair.com’s Student’s Guide to Credit. This document is designed to help students learn the basics of credit health, maintenance and financial success.

1.1 Why Adopt Credit Goals?

“I’m young! I’m having fun! Why should I focus on credit health now?”

If this is your mindset, you’re certainly not alone. Students in their late teens and early twenties are focused on school, socializing and adjusting to life on campus. That said, the average credit score in the 18 to 24 age group is 630.¹ On a grading scale of 850, young consumers are earning a C at best. The good news is, small changes can drastically improve your score and make things easier as you approach graduation. In this guide, you’ll learn:

• Credit basics, including scoring
• Strategies to build and maintain credit in college
• How to spot financial pitfalls aimed at students
• How to pay for school without student loans
• Skills to begin your career with independence

Don’t wait to strengthen your knowledge. Read on to take control of your new life.

¹ The average credit score in the 18 to 24 age group is 630.
What is Credit?
What is Credit?

As you’ll soon learn, credit is more than a concept or a three-digit number. Its influence has the power to open doors, impact decisions and shape your life. So, what is it exactly?

2.1 The Basics

Credit is the act of borrowing money and agreeing to pay it back under specific terms and conditions. The way you manage this responsibility is the difference between creditworthiness and credit ruin.

EXAMPLE: Jim uses his credit card to buy $500 in textbooks for the spring semester. He pays his bill on time until the debt is paid in full. Jim’s actions have demonstrated creditworthiness.

EXAMPLE: Kyle uses his credit card for the same purpose, but forgets to pay his bill for two months. Unlike Jim, Kyle’s creditworthiness is questionable.

Banks and other lenders provide credit to customers who meet basic qualifications. Types of credit include:

- **Installment credit**: A loan with a fixed interest rate that is repaid in equal installments over a period of time. For example, suppose you live at home and need a car to commute to campus. You are approved for a used car loan of $9,000 at 2.88 percent. You must make equal payments of $161.24 for 60 months.

- **Revolving credit**: A loan with a maximum limit and no payoff date. Credit cards are the most common type of revolving debt. Let’s say you apply for a student credit card with 18 percent APR and a $5,000 limit. You have the option of paying your balance in full each month or making minimum payments. Interest is applied to the debt that remains (i.e., revolves) on the card.
• **Service credit:** Service providers like electric and water companies require credit agreements with their customers. With service credit, you agree to pay a total monthly bill that varies based on usage. For example, your electric bill might be $54 in July and $72 in August.

• **Charge cards:** Although they are similar to credit cards, charge cards have no interest rates and require you to pay off the balance at the end of each month. Most charge cards have no limit and rely on income and creditworthiness to approve or deny purchases.²

Note: Certain financial accounts do not affect your credit score, including checking, debit and savings accounts. See Section 2.1.3.4 Scoring Factors for more details.

2.1.1 Credit Bureaus

By now, you’ve realized the presence of credit in your daily life. When the stakes are this high, who records all your information? Contrary to popular belief, the federal government isn’t involved. Consumer credit information is managed by Credit Reporting Agencies (CRAs), also known as credit bureaus.³ These private companies collect credit information from lenders, financial institutions and public records to create your credit report. They earn money by selling your information to interested parties such as credit card providers, retail chains, magazine publishers, etc.⁴ Although there are many bureaus in the U.S., the Big Three are:

• **TransUnion.** Founded in 1968 by the Union Tank Car Company, a Chicago-based railcar operation, TransUnion is now privately owned by equity firms, Goldman Sachs Capital Partners and Advent International. Today its operations span 33 countries worldwide.⁵

• **Experian.** Founded in 1970 by Thompson, Ramo, Woolridge (TRW), Experian merged with competitor, Chilton, in 1988 to become the largest credit bureau in the world. The bureau was later purchased by retail group, GUS plc., who gave the bureau its name. The company maintains more than 220 million U.S. consumer credit files and earns $2 billion per year in sales from North America alone.⁶

• **Equifax.** Founded in 1899, Equifax is the oldest credit bureau in the United States. Originally based in Atlanta, Georgia, Equifax’s business quickly expanded to Canada and now operates in 18 countries and employs 7,000 people worldwide.⁷

These major players accomplish the same task—credit reporting—to earn revenues and grow their businesses. That said, their approach isn’t one-size-fits all.
2.1.1.1 Similarities

Like it or not, the credit bureaus play a role in your financial life, and it’s important to understand their similarities, including:

• **Data collection.** The credit bureaus collect the same types of consumer information:
  - **Personal**—Your name, birthday, address, Social Security Number (SSN), and employers, both current and past. If your parents’ address is still listed as your primary residence, your college dorm or apartment may not appear on your credit reports. As you’ll learn, however, it’s possible to change this information.
  - **Public**—Your tax history, legal history and other information of public record.
  - **Account information**—Past and current accounts, including activation dates, creditor names, credit limits and payment history.
  - **Inquiries**—When you apply for a new credit card or loan, you are granting the lender access to your credit information. A record of that access—also known as an inquiry—is listed in your credit file.

• **Errors.** One in five people are cursed with credit errors in their life. Put simply, a mistake was made and now you’re paying the price. Common reasons for these mistakes include:
  - Misreporting by creditors
  - Clerical mistakes by the credit bureaus
  - Identity theft or mistaken identity
  - Delayed reporting updates
  - Although the credit bureaus share information, creditors aren’t required to report to all three, often causing temporary reporting differences.

**EXAMPLE:** Molly is a junior at Purdue University and decides to apply for an off-campus apartment. She currently lives with two roommates in an apartment on campus, has a low-interest credit card and has worked at the university’s bookstore for the past two years. When she applies for a new lease, she is surprised when none of her information appears on her Experian credit report. Unfortunately, Molly’s current employer and creditor only reported her history to TransUnion, and her Experian report hasn’t been updated.

As Molly learned, the majority of people don’t realize reporting mistakes until they apply for new credit. Unfortunately, this type of issue is common across all three credit bureaus.
• **Laws.** The credit bureaus aren’t controlled by the government, but they must all operate under the same federal laws. The Big Three’s business practices are regulated by the Federal Trade Commission, a government agency founded to protect consumer rights. We’ll talk more about how the FTC can help you in Section 3.

### 2.1.2 Differences

The credit bureaus have a few common threads, but what about their differences? As competing businesses, you’ll see fluctuations in:

• **Data collection.** Molly’s experience was an example of bureau similarity, but it also pointed out major differences in data collection and reporting. Businesses develop relationships with credit bureaus, often buying and selling information exclusively. In Molly’s case, her creditor communicated with TransUnion only, causing an update delay with her Experian and Equifax information.

• **Scoring models.** Just as the Big Three receive data at varying times, they also choose to manage information differently. Each bureau has their own credit scoring system, an algorithm that applies weighted values to collected information. Consequently, a positive account might improve your TransUnion score by 12 points and only cause a 9 point jump in your Equifax score. Credit bureau scoring formulas aren’t available to the public, but even non-math majors can identify a difference. See Section 2.1.3 to learn more about credit scoring.

### 2.1.2 Credit Reports

The credit bureaus operate and collect data, but where does all this information go? As a student, you’re no stranger to report cards. Each bureau applies your collected data and creates a credit report—also known as a credit file—that organizes your information. In addition to personal, public, account, and inquiry data, your credit report will also include negative items associated with each category, including late payments and accounts that have gone into collections. Like a semester’s work, your credit report presents lenders with an overview of your past behaviors, allowing them to predict how you will behave in the future.
2.1.2.1 Ordering Copies

Just as you would review assignments before taking final exam, reviewing your credit reports is the best way to take stock of your past and prepare for the future. The Fair Credit Reporting Act (FCRA) requires the credit bureaus to provide free copies of your reports every 12 months. Visit AnnualCreditReport.com to order yours.

2.1.3 Credit Scores

How do your credit reports rate? Just as your professor provides a final grade, the credit bureaus will rank your score based on the information they collect. Your ranking helps lenders decide whether to work with you. Unlike class grades, there isn’t a final A-F. In fact, every person has multiple credit scores and provide new credit, including:

2.1.3.1 TransUnion, Experian and Equifax Scores

Three reports, three scores. The bureaus tally their own credit score for every consumer. The information in your credit reports may vary, resulting in different credit scores as well. Bureau scoring models also cause fluctuation. For example:

- TransUnion uses their own EMPIRICA model, providing variations for mortgage, credit, auto and installment loan applications.
- Experian uses their own Risk Score model, providing variations for mortgage, credit, auto and installment loan applications.
- Equifax uses the Pinnacle Score and Beacon Score models, providing variations for mortgage, credit, auto and installment loan applications.
In addition to their own scoring models, each bureau uses the FICO model to provide scores to consumers. This means you’ll have three FICO scores, one for each bureau.22

2.1.3.2 FICO® Score

As the most widely recognized model in the industry, the FICO score is used by 90 percent of lenders to help them make credit-related decisions.23 FICO scores are graded on a scale of 300-850:

<table>
<thead>
<tr>
<th>Score Range</th>
<th>Grade</th>
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<tbody>
<tr>
<td>619 or less</td>
<td>BAD</td>
</tr>
<tr>
<td>620-659</td>
<td>FAIR</td>
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<tr>
<td>660-699</td>
<td>GOOD</td>
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<tr>
<td>700-759</td>
<td>VERY GOOD</td>
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<tr>
<td>760-850</td>
<td>EXCELLENT</td>
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Your score determines your level of risk, and your level of risk determines whether you’ll qualify for new credit. Each lender has their own set of standards. While one lender might accept a score of 700, another might consider it too low for approval.

2.1.3.3 VantageScore®

Developed in collaboration by the Big Three, the VantageScore is intended to provide one set of scoring calculations, promoting consistency across the credit bureaus.24 The latest model, 3.0, scores on a scale of 300 to 850 and boasts new methods of measurement, including:

- Deeper classification of installment loans such as mortgages, student loans, auto loans and personal loans.
- A greater sampling of consumer data over two, two-year periods, allowing a more accurate portrayal of behavior and risk.
- A clean slate for consumers who have paid off collection accounts.
- Credit scoring and financing access for up to 30 million Americans with short histories (e.g., college students).
2.1.3.4 Scoring Factors

Now that you understand the credit score ranking system, it’s important to understand how your credit information is weighted. Five factors determine your credit score:

- **Payment history** (35 percent): This category provides a history of credit and other account usage, allowing lenders to understand how you handle financial responsibility. While paying your bills on time will strengthen this category, multiple missed payments will make you appear unreliable.

- **Credit utilization** (30 percent). How do you handle debt? This category provides the answer, tallying total revolving and installment debt and comparing it to your total credit limit. For example, suppose your total debt equals $5,000 and your credit limit is $15,000. Based on this information, your credit utilization ratio is 33.3 percent ($5,000/$15,000=0.333). Keep this category strong by maintaining a ratio of 25 percent or less.

- **Credit length** (15 percent). Experience is valuable in the credit scoring business. The longer your credit usage, the more trustworthy you appear. Building credit in college is the best way to begin this journey. Keep your oldest accounts open, active and positive. Allow time to work in your favor.

- **New accounts and inquiries** (10 percent). Allowing others to access your credit report is a necessity, but it may temporarily lower your credit score. The fix: Use this category sparingly and only apply for new credit if you need it. Too many inquiries can make you appear reliant on credit, a reputation you want to avoid.
Account diversity (10 percent). The average college degree program requires you to take core classes and explore subjects outside of your major. Credit scoring is no different. This category measures your level of experience with various credit types. For example, you might understand how an installment loan works (e.g., an auto loan or student loan), but what about a credit card balance? Show your skills by maintaining positive accounts in each.

These factors represent just a few of the many models and methods used by lenders. That’s why it’s essential to maintain positive information across all categories.

2.2 Why is Credit Important?

What makes credit valuable? Why should you care? The answer is simple: stuff. You need things, whether it’s student loan approval, an off-campus apartment, new clothes, books, food or a career. 29 percent of adults between 18 and 35 live at home with their parents. The job market, a high cost of living and debt are among the reasons for this statistic. The good news: All of these issues can be managed with good credit. Creditworthiness will positively affect the following factors:

2.2.1 Access to Funds and Services

- **Apartment rental.** The most exciting part of college is independent living. Whether you are renting an apartment or waiting until graduation, credit is vital to securing a lease. Landlords will run a credit check and ask for references before approving your application.

- **Utilities.** Electricity, water, gas and trash: all of these services require credit approval. After signing an apartment lease, you’ll need credit for these as well.

- **Cell service.** If you are still on your parents’ family plan, the day will come when you’ll need to qualify for your own phone plan. Your provider will run a credit check before activating service. Good credit means instant approval. Bad credit means relying on Mom and Dad for continued support.

- **Student loans.** A college education can cost more than $120,000, forcing many co-eds to rely on student loans. Without a co-signer, you’ll need a strong credit score to qualify for financing.
Auto financing. If school or work requires you to commute, you will need a reliable car at an affordable price. Good credit means qualifying for an auto loan with low interest, a factor that could save you thousands of dollars.

Credit card approval. It’s ironic, but you’ll need to gain credit in order to build it. Opening a new credit card is the best way to establish a long, positive history while gaining experience. A good score will provide access to cards with lower interest rates, rewards and no annual fees.

Buying a home. Although you’re not ready to buy a home, it takes years to build credit that qualifies for a mortgage. The average buyer needs a score of 740 or higher to qualify for the best rates. If buying a home is your goal, now is the time to start working and planning.

2.2.2 Interest Rates
A mediocre credit score might provide loan approval, but it won’t provide good terms. Creditworthiness is the deciding factor when it comes to interest rates. If a lender sees you as a risk, they will increase the interest rate on your loan to protect their investment. High credit equals low interest.

EXAMPLE: Jared is a junior majoring in mechanical engineering. A semester of partying and poor grades has placed him on academic probation, limiting his qualification for financial aid. To pay for spring semester, Jared decides to apply for a personal loan. The bank isn’t impressed with Jared’s combined score of 662. Without a co-signer, he’ll pay 24 percent interest on his loan.

2.2.3 Insurance Premiums
Insurance is the business of risk. The higher your credit score, the lower your risk. Insurance providers reward responsible customers by providing better rates for homeowner, auto, life and medical insurance.

2.2.4 Savings
What do savings have to do with credit? In a word: everything. Although income isn’t a factor in creditworthiness, the money you lose to bad credit can lead to future damage.
Let’s do some math. Suppose Lana pays off her loan at a rate of $300 per month. She’ll eliminate her debt in 18 months and only pay $213 in interest. Now suppose bad credit prevented her from securing a good personal loan. Instead, she charged $5,000 to a credit card with 22 percent APR. She’ll eliminate her debt in 21 months, but she’ll pay $1,022 in interest. So, how much did good credit save Lana?

$1,022 - $213 = $809

You don’t need a graduate degree to apply the same logic to other areas of life. Good credit could save you thousands when it’s time to finance a car, buy a home or negotiate a new salary. Money saved means long-term security and opportunities to invest, two factors you can’t afford to overlook.

2.2.5  Employment

A 2012 survey by the Society for Human Resource Management revealed that 47 percent of employers check credit references before making a hiring decision.30 As a new grad, you’ll have a unique set of challenges when it comes to finding the first job:

- **Anonymity.** You are unknown, just another applicant in a sea of résumés. Unlike your older colleagues, you haven’t had the chance to foster professional relationships and build a network. You’ll need to rely on good grades, professor recommendations, internship experience and even creditworthiness to rise above the competition.

- **Millennial and Generation Z stereotypes.** If you were born between the mid-80s and 90s, you’ll face a long list of professional stereotypes. Popular media has called members of these groups lazy, entitled, impatient and unqualified in business.31 Confounding these low expectations means exceeding them, both on paper an in the office.

- **Reliability.** The U.S. Department of Labor estimates that it costs one-third of an employee’s salary to replace them.32 For example, suppose a manager earns $60,000 per year, but is fired for incompetence. His company will spend an average of $20,000 to find a suitable replacement. When costs are high, employers are looking for reliable candidates. A positive credit history illustrates your ability to honor personal responsibility.
How Do I Build Credit?
How Do I Build Credit?

Understanding credit is one thing, but building it is another. As a student in your late teens or early twenties, you’ve probably relied on your parents to pay for the essentials: food, clothing, medical coverage, housing and education. You’re not alone. More than half of new grads still rely on family for financial assistance two years out of college, according to research from the University of Arizona.\(^1\) While Mom and Dad may still supply the big bucks, cash won’t help your credit strength. Why is building credit important now? Where should you start?

### 3.1 The Value of Credit History

As you’ve learned, payment history and credit length account for 35 and 15 percent of your credit score, respectively. If you’re doing the math, you understand the importance of a 50 percent bump. Although you may have other sources of income, establishing credit early will prepare you for the next steps in life.

#### 3.1.1 Time Benefits

Would you rather be self-sufficient at age 22 or 25? If you crave independence, the time to build credit is now. Using credit in your college years will help you:

- Gain experience with credit systems and interest rates
- Learn how to manage accounts wisely
- Establish a pattern of responsibility
- Create a proven track record for lenders and employers
- Improve your credit score

**EXAMPLE:** Calvin is a college freshman. Although Calvin’s parents are covering his educational expenses, Calvin decides to apply for a credit card. He uses the card for specific purchases like groceries and gasoline, and pays the balance each month with the cash his parents provide. By his senior year, Calvin has established four years of positive credit use, and he feels confident allowing potential employers to check his credit score.
3.1.2 Reputation

Why is Calvin’s confidence so high? Reputation, of course. Calvin’s understanding of credit has helped him build a solid score, allowing lenders and future employers to gauge his responsibility level. Despite these benefits, the majority of new grads fail to take advantage of the same opportunities. According to a 2014 Bankrate survey, 63 percent of Millennials (ages 18 to 29) don’t have a credit card. Those surveyed cite job security and fear of debt as their reasons for avoiding revolving credit. While their fears are valid, their losses are sure to cause problems.

**EXAMPLE:** Simon is Calvin’s college roommate. While Calvin worked to establish a credit history, Simon opted to pay cash for his expenses and avoid credit cards. After graduation, Simon has trouble renting an apartment and qualifying for credit on his own. Consequently, Simon’s parents must co-sign his new accounts.

3.1.3 Buying Power

Simon learned that building credit is essential, especially when new purchases are on the line. After graduation, you’ll have trouble qualifying for new credit accounts, finding an apartment and even setting up utility services without a decent score. In fact, 29 percent of adults ages 25 to 34 still live at home. If squatting in your parents’ basement sounds unappealing, now is the time to take control.

3.2 Strategies

When you are ready to begin building a credit history, there are a few tried-and-true strategies to help you prepare for credit health.

3.2.1 Authorized Usership

As a first-time applicant, you may have trouble finding a willing lender. If this occurs, consider asking your family to add you as an authorized user to one of their credit accounts. Also known as “piggybacking,” this strategy allows you to benefit from your parents’ positive credit. As their scores improve, yours will get a boost as well. Participate in the process by using your card to make small purchases (approved by your folks) and paying off the balance each month. Establish positive habits now.
3.2.2 Secured Credit Cards

Another option for financial newbies is a secured credit card. This choice provides you with a credit line that is guaranteed based on a security deposit. In other words, if your credit limit is $500, you must pre-load the card with $500 cash before using it. Although this may seem like a debit option, a secured credit card tracks how you spend money and reports your activity to the major credit bureaus.\(^5\) Like a regular credit card, minimum payments are due each month and the remaining balance is subject to accruing interest. Secured cards provide an easy way to begin your journey, allowing you to establish a credit history and learn the basics of financial management.

3.2.3 Retail Credit Cards

Retail credit cards are commonplace for national chains, e.g., Macy’s, Wal-Mart, Sears, etc. If you are a frequent shopper, consider opening a line of credit to pay for routine purchases. This option allows you to build credit during regular weekly shopping trips. Many retail cards accept borrowers with little-to-no credit and offer points or cash rewards. Avoid accruing interest by paying off your balance at the end of each month.

3.2.4 Student-Focused Credit Cards

Cashing in on the college experience is easy thanks to student-focused credit cards. Visa, MasterCard, American Express and Discover are among the top providers, offering customized credit cards to suit students’ needs. Typical terms include:

- Approval with limited credit history
- No annual fees
- No penalty interest rates
- No foreign transaction fees (important if you plan to study or travel abroad)
- Cash back on dining, gasoline and entertainment purchases
- Rewards for making payments on time

Unless you are 21 or older, the Credit CARD Act of 2009 requires you to supply proof of income or a co-signer to qualify for these cards.\(^6\) Review NerdWallet.com’s top picks and consider your options.
3.2.5 Student Loans

Section 5 covers all the dangers of college debt, but what if student loans could help you in the meantime? According to data from the National Center for Education Statistics, the average student graduated with $33,000 in student loans in 2014.7 While we don’t encourage unnecessary borrowing, most students can’t afford to attend college without financing. If you are among the many, allow loans to help you build credit along the way. In general, education loans are:

- **Installment debt.** Most student loans are paid in equal parts after graduation, placing them into the installment debt category. You’ll see a record of these loans on your credit reports, as well as a payment history once your grace period ends and repayment begins.

- **Payable in school.** Although many students choose to repay their loans after graduation, you have the option of starting early. This strategy offers a few benefits, including:
  
  - Limiting your debt. For example, suppose you have a $5,000 unsubsidized private loan. Interest on your loan accrues quarterly at a rate of 6.8 percent. After four years, an additional $1,547.95 has been added to the principal balance, increasing its size by 31 percent. Paying your loan interest while enrolled in school will help you avoid inflated balances and reduce your monthly payments after graduation. The result will free up your income for more important purposes.
  
  - Reducing your credit utilization ratio, a factor that will keep your score in fighting form.

3.3 Using Your First Credit Card

Now that you’ve chosen a credit-building strategy, it’s time to turn your thoughts into action. Starting with the right tools will help make wise decisions and strengthen your score in the process.
3.3.1 Applying the Right Way

As you’ve learned, there are multiple sources of credit available to students, but not every option is a perfect fit. We discussed inquiries in Section 2.1.3.3 and their impact on your credit score. Applying for too many accounts can place undue stress in your file, especially in the beginning. Before applying for a new line of credit, ask yourself:

- Do I qualify for this card based on the terms and conditions?
- Do I have proof of income or a co-signer to help me during the application process?
- How will I use my credit line?

3.3.2 Methods for Success

Intention is the cornerstone of credit strength. Without a plan, your first credit card could land you in serious financial trouble. Thankfully, there are a few strategies for success:

- **Create a credit purpose.** Keep yourself on track by creating a credit purpose.
- **Practice discipline.** While Natalie’s credit card could buy a lot of clothes, drinks and dinners out, she doesn’t stray from her initial plan. She maintains a low credit utilization ratio and resists the temptation to fund a crazy weekend.
- **Set up alerts.** Whether it’s a text message or online app, create a system that reminds you to pay bills and stay within your credit limit. Don’t expose yourself to unnecessary damage.
- **Be stingy.** Sure, your parents added you as an authorized credit user and co-signed your apartment lease, but now is not the time to pay it forward. Friends may ask you to cover their drink tabs or even borrow your card in an emergency. The answer to these questions is simple: no.

**EXAMPLE:** Natalie is a sophomore who was recently approved for a credit card. Although the card has a $5,000 balance, Natalie decides to build her credit by using it for groceries and bus fare only. Her monthly balance rarely exceeds $300, and she pays it in full each month.
3.3.3 Things to Consider

In addition to successful credit strategies, don’t discount the other factors that can help (or hurt) your score. Before signing on, review:

- **Your ability to repay.** Using credit instead of cash is a great way to build your score…as long as you can pay your bills. A spotty income can lead to big mistakes, including making minimum payments and allowing interest to accrue and sinking into debt. Assess your buying power before using a credit card.

- **Annual fees.** Many credit cards charge annual fees for usage, a downside for students living on a tight budget. Avoid additional costs by finding a card with no annual fee.

- **Service charges.** Some credit cards charge a percentage of your purchase for use, a factor that will add to your bottom line. Read the fine print and choose a card that does not assess fees.
4

How Do I Avoid Credit Pitfalls?
How Do I Avoid Credit Pitfalls?

Building credit requires two things: making the right decisions and actively avoiding the wrong ones. Credit pitfalls can derail even the best-laid financial plans. Is it possible to spot these roadblocks? What are some common dangers to avoid?

4.1 Student-Focused Marketing

College is about more than earning a degree. It may also be your first taste of independence. Life away from home is exhilarating, but the high of freedom can also lead to bad decisions. Enter student-focused marketing. While some are full-blown scams, others aim to take advantage of students’ inexperience and desire to step into adulthood. The result is usually lost cash, credit damage and even identity theft. Be wary of:

4.1.1 Pre-Approved Credit Cards

The Credit CARD Act of 2009 prohibits lenders from handing out credit to students under 21 without a co-signer or proof of income, but what about you older, working co-eds? Beginning in your junior or senior year, you may receive pre-screened offers from creditors promising financial freedom after graduation, low interest rates and world-class perks. Don’t be fooled by good marketing. In fact, a credit card pre-approval is not:

- **A credit guarantee.** Creditors send pre-approval offers based on creditworthiness, but it doesn’t guarantee acceptance. You’ll still need to apply for the credit card, an act that will place an inquiry in your credit file.
- **Alma mater loyalty.** Although creditors are legally barred from advertising their cards on campus, many universities still allow sales within their alumni associations. Creditors cannot provide perks for signing up (e.g., a free t-shirt or Starbucks gift card), but their cards often boast the school’s logo, a tempting offer for nostalgic seniors. While you may think a university-affiliated credit card earns you perks, it’s actually the school that receives compensation. The lesson? If you are looking for a way to commemorate college, buy a yearbook or class ring and choose a card based on merit, not design.

- **Ability to repay.** Suppose you receive a pre-approved offer for a $6,000 credit line. As a college senior, you can’t afford to charge more than $450 per month in expenses, and yet, you have an opportunity to spend much more. Although credit may be available to you, it doesn’t imply an ability to repay. Stick to your budget to avoid future mistakes.

### 4.1.2 Cold Calls and Internet Scams

Technology has broadened our reach in society, business and education. That said, it’s also a breeding ground for crime, specifically identity theft. Millions of people are victimized each year, damaging their lives and credit scores in the process. Thieves may choose to target you in different ways, often taking advantage of your co-ed status to gain your trust and personal information. Be wary of:

- **Unsolicited phone calls.** If you’re new to the college scene, receiving a school-focused phone call might not seem unusual, and your naivety could lead to serious issues.

**EXAMPLE:** Mark is a college freshman living on campus. One evening, he receives a phone call from someone claiming to represent the Bursar’s office. “There’s a problem with your account information,” the person says. “I need you to verify your full name, home address, email address and Student ID number. Oh, and I’ll need your Social Security Number as well.” Worried about his tuition, Mark gladly gives the caller the information he wants.

Mark’s actions are his downfall. The information he provided is more than enough for a thief to open a credit card in his name, apply for a loan and even steal his government-issued identity. Take a lesson from his foolishness by practicing caution. If you receive a call like this, ask the following questions:

- Who is calling? May I please have your full name, job title and office phone number?
- Please tell me the specific reason for your call.
- I’m uncomfortable providing information over the phone. Can I come to your office and meet with you in person?
A scammer will stumble over these questions and move on to another victim. Do others a favor by reporting suspicious calls to campus security and the local police department.

- **Scholarship sites.** College is expensive, and grants and scholarships can help you reduce costs. Although the internet has made information more accessible, its quality is still up for debate. Many alleged scholarship sites are identity theft fronts: basic Web domains aimed at gathering phoney application fees and collecting student information. Stick with school-sponsored scholarships and browse sites like Fastweb.com and Scholarships.com for reputable opportunities.

- **Social media pages.** Facebook and Twitter are great ways to stay connected to college friends. They are also used by school-sponsored groups and private businesses to post updates, share photos and advertise activities. While you shouldn’t avoid social media, sharing too much can lead to robbery or identity theft. Avoid posting:
  - Your address or dorm room number
  - Any information found on your driver’s license
  - News that you’ll be off campus or out of town
  - Banking information or level of income

When in doubt, less is more. Use social media for casual updates and keep the serious info under wraps.

### 4.1.3 FAFSA Help Services

College newbies often feel overwhelmed by recent life changes. Declaring a major, finding a roommate, choosing classes and paying for school are just a few of the hurdles you’ll face. When it comes to tuition, qualifying for financial aid is a topic on everyone’s mind. All students applying for assistance are required to submit a Free Application for Federal Student Aid (FAFSA) form. The keyword here is “free.” Students pay nothing to submit their information for review. Unfortunately, many fall prey to copycat websites offering FAFSA preparation services for a fee. Don’t be a victim of false advertising. Visit the U.S. Department of Education’s FAFSA website and stay away from money-stealing schemes. See Section 5.1 to learn more about the financial aid process.

### 4.1.4 “Easy” Part-Time Employment

Supporting yourself during college is a challenge, especially with a full course load. While it’s difficult to find a job with little free time, don’t get sucked into “easy” employment for college students. Protect your credit and bank account by avoiding jobs that:
• **Pay commission only.** Many states’ laws prohibit employers from engaging in certain pay structures, including pay-upon-performance only. Click here to find your state’s minimum wage requirements to ensure a fair deal.

• **Require an up-front “investment.”** Pyramid schemes are stronger than ever thanks to direct sales marketing. While these companies offer the potential of big pay-outs, few participants ever rise to the top. Stick to opportunities that provide an hourly wage and say no to employment that requires you to buy a start-up kit or pay dues.

### 4.1.5 Rent-to-Own Offers

You are a poor college kid. You live in a dorm or apartment with three roommates and can’t afford to buy new furniture, electronics and appliances. Why not take advantage of a rent-to-own deal? The downsides may surprise you.

**EXAMPLE:** Caryn recently moved into a small apartment on campus. Although her parents co-signed the lease, she still needs to buy a few pieces of furniture. Her part-time job pays $400 per week, but Caryn is anxious to shop now. She visits a local rent-to-own store and chooses a large sleeper sofa. The price: $24.95 per week for 78 weeks. “This is perfect,” Caryn thinks. I can afford to buy the sofa and they accept applicants with no credit history.”

While it’s true that Caryn’s budget can afford $100 in monthly payments, her reasoning is far from wise. Based on the payment schedule, Caryn’s new sofa will cost $1,949.22 over the next 6 ½ years. The same model is sold online for $779.99. Paying cash for the sofa would save Caryn more than 40 percent, or $1,169.23. In addition to cost, using a rent-to-own option will affect Caryn’s credit in the following ways:

• **A hard inquiry.** Like any loan, Caryn must qualify for credit approval before buying the sofa. A hard inquiry will be placed in her file, potentially lowering her already shaky score.

• **Prolonged debt.** Caryn will continue to pay for the sofa long after graduation, affecting her income and credit utilization ratio. Without proper attention, both of these factors could have a negative impact on her post-graduation lifestyle.
• **Potential credit damage.** In addition to prolonged debt, signing up for a rent-to-own option puts Caryn at risk for long-term credit damage. Suppose she has trouble finding a job after graduation. Suddenly, she cannot afford to make weekly sofa payments. Her account accrues late fees, penalties and eventually goes into collection status. The damage remains on her credit reports for up to seven years.\(^5\)

Caryn’s impatience could create serious problems in the future. Take a lesson from her mistakes and avoid the same fate. Say no to high-interest credit offers by saving for the things you need or finding a cheaper (e.g., Craigslist) option.

### 4.2 Overspending

Overspending is full of credit risk. Money management and credit health demand restraint, a quality you won’t learn without practice. Stay away from:

- **Credit card debt.** Credit is a tool, not a bottomless bank account. Build your score by charging small items and paying your balance in full at the end of the month. Sure, you have the option of maxing out your card, but the consequences aren’t worth the thrill.

- **Student loan abuse.** While federal student loans come with annual limits, private student loans often have no ceiling, allowing you to borrow much more than you need. Don’t be lulled into the comfort of a grace period; accruing interest will catch up to you eventually. Avoid high debts after graduation by limiting your student loan dependence. See Section 5 for more details.

- **Borrowing from family.** Whether you’re borrowing or begging, you won’t gain credit experience by relying on others. Failing to build credit now means dealing with the consequences later. Gaining experience is the best way to learn good habits and take control of your life. Consider losing the safety net. Your future self will thank you.

### 4.3 Knowing Your Rights

We’ve covered the basics of self-sufficiency and credit health. Now that you understand how to build credit and avoid mistakes, it’s important to know your rights.
4.3.1 Consumer Protection Laws

The government plays an important role in the credit health process. Although they take no part in scoring, the Federal Trade Commission is tasked with upholding your consumer rights, preventing companies and individuals from causing you unfair harm. It wasn’t always easy to assert credit rights and repair past mistakes. Decades of progress has led to the following legislation:

- **1968: Truth in Lending Act (TILA)**—When providing a contract, credit companies must list their terms, conditions and costs to customers.⁶

- **1970: Fair Credit Reporting Act (FCRA)**—As an amendment to the Consumer Credit Protection Act, the FCRA requires banks to maintain records and report transactions to the Department of the Treasury.⁷ It also allows you to check your credit reports, verify and maintain your information. This law is the cornerstone of credit repair.

- **1975: Fair Credit Billing Act (FCBA)**—As an amendment to the Truth in Lending Act, the FCBA protects consumers from unfair billing practices, allowing you to combat and dispute errors.⁸

- **1978: Fair Debt Collection Practices Act (FDCPA)**—As an amendment to the Consumer Credit Protection Act, the FDCPA limits how creditors can contact you to collect debts.⁹

- **1985: Credit Practices Rule (CPR)** — This law limits the types of creditor requirements listed in contracts. It also requires them to list your borrower responsibilities in writing before asking you to sign an agreement.¹⁰
• **1988: Fair Credit and Charge Card Disclosure Act (FCCCA)**—As part of TILA, credit providers must list the following information on their card applications:11
  - Percent APR
  - Minimum finance charges
  - Grace period on purchases
  - Balance calculation methodology
  - Annual fees
  - Transaction fees on cash advances
  - Penalty fees for late payments and overspending without overdraft coverage

• **1996: Consumer Credit Reporting Reform Act (CCRA)**—As an amendment to the FCRA, this law provides the following people with free credit reports:12
  - Unemployed
  - Those on public-assistance
  - Fraud/identity theft victims
  - Every consumer (on an annual basis)

• **1996: Credit Repair Organizations Act (CROA)**—This law regulates how creditors may advertise their products, allowing consumers to make an informed decision.13

• **2003: Fair And Accurate Credit Transactions Act (FACTA)**—As an extension to the FCCCA, this law limits how credit reports are used.14

• **2009: Credit Card Act (CARD)**—This law limits how much and how often creditors may raise interest rates, impose fees, allocate payments, and most importantly, market and provide new credit to college students.15

• **2011: Dodd-Frank Wall Street Reform and Consumer Protection Act**—This law created the Bureau Of Consumer Financial Protection which regulates how creditors and bankers treat consumers.16

These laws are powerful and can help you avoid credit pitfalls, scams and other damage. Use these descriptions as a reference before entering into an agreement.

### 4.3.2 Getting Help

When you are new to the credit game, understanding the rules is easier said than done. Don’t be afraid to ask for help from a Certified Financial Planner or credit repair professional along the way. An expert’s perspective could change your path.
How Do I Avoid College Debt?
How Do I Avoid College Debt?

You’ve learned the basics of avoiding credit damage, but one danger is worth a closer look: student debt. Attending college is part of the American Dream, but for many, it’s no longer an affordable goal. According to a College Board survey, the average price of tuition for the 2014-2015 school year was $31,231 for private universities, $9,139 for in-state students attending public universities, and $22,958 for out-of-state students. Unfortunately, these numbers only tell half the story. You’ll still need money for housing, books, food, utilities, transportation and more. Without proper attention, the sum of these expenses will equal high post-grad debts, overwhelming bills and depleted credit scores. So, what’s the solution? Should you forgo a college education? Not according to Georgetown University. A report from their Center on Education and the Workforce revealed:

“…college remains very much worth the cost in the post-recession economy for most students: unemployment rates declined for recent graduates in most majors. Recent college graduates are more likely to be employed than high school graduates in the middle of their careers in every major, with the exception of social sciences and architecture.”

When education is necessary but out of reach, there are a few ways to finance your future. Using these tools correctly could mean the difference between financial health and credit ruin.
5.1 Financial Aid

You learned the basics of financial aid scams in Section 4.1.3, but what about the application process?

5.1.1 Completing Your FAFSA Form

In general, college students are required to complete a Free Application for Federal Student Aid (FAFSA) form. The information found on your FAFSA determines:

- **Financial need.** The DOE uses your financial information to calculate need. It also calculates the expectation of personal and parental contributions.

- **Aid eligibility.** Federal and state financial aid depends on your financial need. It may also determine your eligibility for aid provided by your college.

- **Loan, scholarship and grant eligibility.** Many funding options require a completed FAFSA form before starting the application process.

5.1.2 Strategies to Secure More Aid

While it’s possible to fill out the FAFSA form and move on with your life, there are a variety of ways to increase your chances of securing the funding you need. Pay attention to:

- **Timing.** Funding sources often require FAFSA completion by a certain date. For example, the deadline to qualify for federal student aid for the 2015-2016 school year is June 30, 2016. Many programs have limited funds and disburse money on a first-come-first-serve basis. Find your competitive edge by completing the FAFSA as soon as possible.

- **Assets.** Suppose your parents opened a Roth IRA in your name for the purpose of college funding. If possible, ask them to transfer the funds into their personal accounts or to take ownership of the account itself. FAFSA weighs your assets at a higher rate than your parents, a factor that will limit your financial aid award.

- **Current information.** Suppose you filled out a FAFSA form in January, but your mom lost her job in April. Be sure to edit your financial information to include up-to-date information. This strategy will help you secure aid based on today, not yesterday.
- **Family circumstances.** Not every piece of financial information is listed on the FAFSA form. If your family is struggling, include a letter explaining why you need more help. For example, is your brother currently ill and in need of expensive medical care? Highlight these costs to allow their consideration in the financial aid process.

- **Competition.** Consider using your academic excellence to score college funding. Universities competing for your enrollment often provide generous financial aid packages and scholarships. Shop around to see who offers the best deal.

Pursuing financial aid is the first step in avoiding college debt. Begin this process before seeking other options.

### 5.2 Loans

Student loans are among the most popular sources of college funding in the United States. According to The Institute for College Access & Success, 69 percent of college seniors graduated with student loan debt in 2013. If you plan to take this route, it’s important to understand the basics of each option.

#### 5.2.1 Federal Student Loans

The U.S. Department of Education provides lending options to students attending a four-year college or university, two-year community college, trade, or technical school. There are two types of federal loans:

- **Direct Subsidized.** These loans are distributed based on financial need and your school’s determination of how much you should borrow. The DOE pays the interest on your loan while you are enrolled in school at least half-time. They will continue to pay the interest during the six-month grace period following graduation (except for loans disbursed between July 1, 2012 and July 1, 2014) and during periods of forbearance and deferment.

- **Direct Unsubsidized.** These loans are not distributed based on financial need, but you must be enrolled at least half-time and your school will still determine how much you may borrow. Unlike subsidized loans, interest will accrue on your loan during school enrollment, your grace period and voluntary deferment and forbearance periods. You are responsible for paying all accruing interest.
The DOE’s Federal Student Aid office provides a list of helpful information surrounding federal borrowing, including:

- Limits based on school year and dependent status
- Current interest rates based on loan type
- Associated fees

Visit the U.S. Department of Education website to learn more.

5.2.2 Private Student Loans

College tuition is steep. The average four-year degree can cost anywhere from $36,500 to $125,000.\(^{11}\) In most cases, financial aid and federal loans fail to cover the full cost of an education, forcing millions of students to apply for private loans. Unlike federal loans which are backed by the U.S. government, private loans are supplied by banks and other for-profit institutions.\(^ {12}\)

In general, they also come with:

- **Credit requirements.** Many private lenders require students to submit a credit application for loan approval.\(^ {13}\) If your credit history is short, you may need a co-signer to close the deal.

- **Greater limits.** Private lenders are business owners, and the more you borrow, the more they stand to earn. Consequently, many are willing to provide loans that exceed your financial need.\(^ {14}\)

- **Higher interest rates.** Not only are private loans burdened with higher interest rates, many are variable, leaving your budget vulnerable to shifts in the market.\(^ {15}\) Over time, this factor could dramatically increase the total cost of your loan.

- **Stringent repayment policies.** While federal loans often provide income-based repayment plans, private lenders are not required to offer the same options.\(^ {16}\)

Private loans are fraught with variability and risk. Approach this option with caution and be sure to review the terms and conditions with a financial planner.
5.3 Grants and Scholarships

Student loans aren’t the only source of funding for college. You may qualify for grants and scholarships based on merit, economic status, gender or ethnicity.¹⁷

5.3.1 Grants

A grant is a gifted amount of money, usually awarded based on financial need. Common federal grants include:

- **Pell Grant**—Awarded to undergraduate students who have not obtained a bachelor’s degree (some post-baccalaureate teaching certifications qualify as well). Eligibility is based on:¹⁸
  - Economic status
  - Annual disbursement maximums (e.g., the limit for the 2014-2015 academic year was $5,730; the limit for the 2015-2016 school year is $5,775)
  - Financial need
  - Tuition cost
  - Enrollment status

- **Federal Supplemental Educational Opportunity (FSEOG) Grant**—Awarded to undergraduate students with exceptional financial need. Annual awards range from $100 to $4,000 per student. Eligibility is based on:¹⁹
  - Economic status
  - Your school’s participation
  - Available funds. Participating schools receive a finite amount of FSEOG funds per year. Applying early provides a better chance of receiving assistance.

- **Teacher Education Assistance for College and Higher Education (TEACH) Grant**—Awarded to undergraduate and graduate students who plan to pursue a career in teaching. Annual awards are up to $4,000 per year. Eligibility is based on:²⁰
  - Economic status
  - Enrollment in a TEACH-eligible degree program
  - Academic qualifications e.g., maintaining a minimum 3.25 GPA
  - Signing of a TEACH Grant Agreement to Serve, requiring you to:
    - Work within a high-need field
    - Teach in a low-income area
    - Serve for a minimum of four years within eight years of graduation
The TEACH Grant does not need to be repaid unless you fail to meet the requirements of service. If this occurs, your grant amount will be converted into a federal Direct Unsubsidized Loan.

The DOE provides a complete list of grant programs, individual guidelines and eligibility requirements. Click here to learn more and contact your school’s financial aid office to gather information about college-specific grants.

5.3.2 Scholarships

Like grants, scholarships are gifted amounts of money that do not need to be repaid. While some are based on financial need, most are awarded based on merit. Scholarships are offered by a variety of entities, including:

- Federal, state and local governments
- Colleges
- Private institutions and companies
- Clubs, non-profit organizations and private donors

The possibilities are limitless when it comes to securing scholarship money. Apply for as many opportunities as possible to better your chances of winning. Hone your search by considering:

- **Age.** Some scholarships are available to high school seniors only, while others are reserved for older students.

- **Gender.** Some scholarships are focused on the advancement of women.

- **Ethnicity.** Many scholarships are available to minorities and other ethnic groups.

- **Heritage.** Family lineage is a powerful tool in the world of scholarships. For example, did your ancestor serve in the Revolutionary War or other significant conflict? The answer could secure you college funding.

- **Location.** State-specific scholarships are awarded to qualifying students each year.

- **Family status.** If you are married or have children, additional scholarship opportunities may be available. Similarly, you may qualify for scholarships if you come from a large family with multiple brothers and sisters.
Area of study. Interested companies may be willing to fund your education based on your major.

Family groups and religious organization. Does your church offer assistance to students in need? Is your grandfather a Freemason? Consider family-related ties when deciding how to pay for school.

Academic achievement. The majority of scholarships are based on past performance and merit. Gather a few letters of recommendation to highlight your accomplishments during the application process.

Military service. Servicemen and women often qualify for college funding in addition to tuition reimbursement. See Section 5.5. for more details.

Every scholarship is equipped with its own set of requirements and deadlines. Visit the U.S. Department of Labor’s scholarship database and check with your school for applicable opportunities. Applying early is vital.

5.4 Work-Study Programs

As a full-time student, finding a job is challenging. While you may have the ability to work part-time hours, securing a supporting wage is tough. What if you could earn money and gain relevant work experience? Many students are accomplishing both by participating in work-study programs. The federal government provides funding for more than 3,400 postsecondary institutions on an annual basis. This allows participating schools to distribute money to students with financial need and academic potential. The hours you work are based on your funding award and class schedule. In general, students complete work-study in a field related to their major at one of the following locations:

- Federal, state or local public agencies
- Private, non-profit organizations
- Private, for-profit organizations
- Local schools (for teaching students)
- On-campus research, e.g., in a science or mathematical setting

Contact your school’s financial aid department to see if you qualify and to learn more about the opportunities available.
5.4.1 School-Sponsored Programs

Federal funding isn’t the only way to earn money. Many colleges offer wages or tuition reimbursement to Teaching Assistants (TAs) who conduct recitation classes and Resident Advisors /Assistants (RAs) who live in the dorms. For example, RAs working at Purdue University earned $5,544 during the 2011-2012 academic school year—a hefty sum for part-time hours. Acceptance is often based on credit hours completed, academic status and a personal background check. If you are interested in honing your skills as a teacher or a leader, contact your school’s department of employment to talk about your goals.

5.5 Military Service

Every year, thousands of students serve their country and pay for college at the same time. The U.S. Armed Forces are comprised of five branches: Air Force, Army, Coast Guard, Marine Corps and Navy. Enlisted men and women qualify for substantial education assistance. According to the U.S. Military:

“Congress has given each service the ability to pay up to 100% for the tuition expenses of its members. Each service has its own criteria for eligibility, obligated service, application process and restrictions. This money is usually paid directly to the institution by the individual services.”

In addition to pursuing an education after service, it’s possible to serve while attending college simultaneously through the Reserve program. Contact your service branch of choice and speak to a recruiter about your options. Choosing military service could secure a free education.

5.6 Lifestyle Choices

It’s the elephant in the room: lifestyle choices. Even an education supported by grants, scholarships and employment can’t survive poor decisions. In many cases, avoiding college debt is about more than tuition. It also encompasses:

- **Housing.** How does housing affect your bottom line? For example, suppose you have an opportunity to work as an RA. In exchange, your school pays $5,000 per year and provides free room and board. Do you jump at the chance to save money, or do you opt to pay rent for a “cooler” campus apartment?
• **Food.** Campus food is expensive, costing hundreds and even thousands of dollars depending on the number of meals bought per week. Consider saving money by reducing your dependence on university-provided meals. Learn to cook if you have access to a kitchen or find a more affordable source of sustenance. Why spend more than necessary?

• **Entertainment.** How does your social calendar affect your budget? Dining out with friends, partying, drinking and paying cover charges adds up, especially if you are guilty of splurging several times a week.

• **Vigilance.** What are you worth? What do you owe? In essence, what is your financial status? It’s never too soon to ask these questions and budgeting is essential to avoiding long-term debt.

### 5.7 Overall Factors

Avoiding college debt is a balancing act. The sum of your tuition, choice of funding and personal choices will define your financial future. As you reexamine the options, include the following factors in your final decision:

• **Tuition costs.** While you may think tuition costs are set in stone, there are plenty of ways to reduce the bottom line. In addition to pursuing the funding options listed in this section, choosing a more affordable school can drastically minimize your financial burden. For example, suppose you were accepted to a four-year public university. The annual cost of tuition is $21,500. Although you are anxious to begin college life, you opt to live at home and enroll in the local community college during freshman year, allowing you to complete pre-requisite courses and transfer the credits. This strategy allows you to save $16,200 in tuition costs. The bottom line: Nothing is definite. If you value savings above all else, get creative and look for ways to secure up-front discounts.

• **Graduation time.** How long will it take you to graduate? Are you in full-time or part-time status? The time to degree completion can affect your job prospects, funding options and even accruing debt. Consider multiple scenarios as you apply to colleges. The result will help you decide which class schedule to choose.

• **Funding risks.** Paying for college with loans comes with significant risk. Graduation time and loan type will affect:
• Interest accrual. Is your student loan interest subsidized or unsubsidized? How will graduation time affect the principal balance?

• Balance accrual. When it comes to attending college, what’s the bottom line? How much debt will you have on graduation day?

• Payoff time. Every loan has its own eligibility requirements and payoff times. How will the latter affect your income? For example, are you required to pay off a $10,000 loan in 10 years or 20? How does the difference affect your monthly payment amount?

• **Earning potential.** While every student hopes for a high post-grad salary, it isn’t always realistic. Research the average wage for your field based on experience and location. Compare your earning potential to the burden of funding an education. How will your salary measure up?

Attending college doesn’t come with a roadmap. While you can’t foresee every obstacle, you can make educated choices based on facts and forecasts. Avoid debt and credit damage by taking this process seriously.
6
How Will Credit Affect My Future?
How Will Credit Affect My Future?

Earning a degree helps you build the skills to succeed, and credit strength is no different. Once you’ve made the right choices, mapping the future becomes easier. Graduating with a strong credit score provides a multitude of benefits that will impact your post-grad life.

6.1 Using Your Strength

Are you ready to reap the rewards of creditworthiness? As a newly-minted college graduate, you’re likely to encounter a variety of situations that require a good score. As we learned in Section 2, credit plays an essential role in securing new debt, budgeting money and saving for the future. Put these real-life concepts to work by:

• **Budgeting the right way.** Once you’ve established an income, it’s important to set up a working budget. Credit plays a role in this process by acting as a tool.

  **EXAMPLE:** Leo is a new grad who earns $45,000 per year. After moving into an apartment and buying a car, he begins to build a household budget. He’ll need $400 per month for groceries, $275 for utilities and $200 for entertainment. Although he could pay for these items in cash, Leo decides to use his Visa to pay for groceries and utilities and his MasterCard to pay for entertainment. Leo pays his credit balances in full at the end of each month, earning him a credit boost in the process.

Continue building your credit by using it for your post-grad expenses. Download our free budget template along the way. Its guidance will help you get started.
• **Cashing in on perks.** The credit elite have access to the best financing offers and credit card perks.¹

**EXAMPLE:** Jasmine is a 23-year-old Certified Public Accountant (CPA). She travels frequently for work and is required to pay for up-front expenses before submitting them for reimbursement. Sensing an opportunity, Jasmine decides to apply for a high-end travel credit card. Qualifying for the card requires excellent credit, a goal Jasmine achieved during college. Within the first three months, Jasmine earns 40,000 airline miles, double points for every dollar spent, and an assortment of other perks. Using her card for business-related expenses allows her to reap personal rewards for later use. This year, she plans to cash in her miles for a trip to Hawaii.

• **Saving aggressively.** In addition to saving money on vacation, a strong credit score will help you secure low interest rates and insurance premiums, two benefits you can take straight to the bank.

**EXAMPLE:** Ava recently graduated with a degree in computer science. She earns $65,000 per year and plans to save at least 25 percent of her income. After 10 years and a six percent annual return, Ava’s retirement accounts have grown to $222,440.13. If she had begun saving five years later at age 27, her accounts would only total $95,907.04.

As Ava learned, early savings can yield big results. Combine healthy budgeting and creditworthiness into an aggressive plan. Speak to a financial planner and divide your assets into liquid savings and long-term accounts. It’s never too soon to start.

### 6.2 Long-Term Stability

By now, you’ve recognized that budgeting and savings are easier with good credit, and their importance only grows with age. Taking control after graduation is the best way to establish long-term stability, a goal that will help you:

• **Pay off student loans.** Would you rather eliminate student debt in 10 years or 20? The ability to repay student loans is best achieved with good credit. The money you’ll save in accruing interest will help you pay off the principal balance more quickly, freeing up your income for more important things.
• **Establish relationships.** Establishing positive relationships is easier with financial stability. A healthy budget and credit score are sure to impact your:

  • Professional connections. We’ve talked about the importance of good credit as it relates to employment, but what about other opportunities? Suppose you are offered a prestigious three-month fellowship after graduation. The position pays minimum wage but provides free housing and professional connections. Graduating with few financial burdens is the best way to take advantage of these opportunities as they arise. Greater options could shape the course of your career.

  • Personal ties. Beginning a personal relationship is exciting, but it may prove difficult if you are saddled with financial trouble. The inability to pay your bills or work decent hours is sure to affect your social life. Many are also wary of attaching themselves to a mate with money troubles. Consider these factors as you pursue credit health.

• **Start a family.** According to the U.S. Department of Agriculture, the average cost of raising a child from infancy to age 18 is $245,340.\(^2\) Starting a family is an expensive goal, one you can’t achieve without the right financial tools.

• **Care for aging parents.** Although your parents are probably middle-aged today, their needs are likely to change in the future. More than 29 percent of the U.S. adult population cares for an elderly or disabled relative.\(^3\) While your parents may rely on retirement funds, financing their care could fall to you as well.

• **Get what you need.** In the end, the goal of credit strength boils down to one thing: the ability to get what you need.

  • Life’s essentials. Few people can afford big-ticket items without relying on third-party financing. A stellar credit score means never worrying whether a bank will approve your mortgage loan, auto loan or other application.

  • Retirement. One-third of working Americans have no retirement savings.\(^4\) Why? They are living paycheck to paycheck. Keep a tight grip on your credit and finances is the best way to rise above these struggles.

  • A legacy. In addition to earning what you need, what do you hope to provide to future generations? Will your legacy include a hefty inheritance or a pile of unpaid bills? Don’t discount their importance of these questions in your new grad years. Consider long-term goals as you pursue a career and maintain positive credit. The result will help you make wise choices along the way.
7 Resources
Resources

Congratulations, you now have the skills to avoid debt and build credit during college. Now it’s time to put these resources to work. Follow the steps below as you advance through school and adapt to changing priorities. Following a plan will help you maintain credit health and prepare you for the future.

7.1 Student Worksheet

Attending college comes with a long list of needs and expenses. Budgeting these items is the best way to keep your financing on track. Download our Student Worksheet to get started. In the Excel sheet, you’ll find 3 columns:

- **Financing/Earnings**: Use this section to list every source of financing and income, from scholarships to student loans.
- **Expenses**: List the price of tuition, room and board, and all other education-related costs.
- **Extras**: Having fun is an essential part of the college experience. Use this column to estimate the price of entertainment, transportation and other miscellaneous expenses.

After completing your information, refer to the Annual Remainder or Loss row at the top of the sheet. This cell provides an automatic tally of remaining funds or amount lost based on money in (i.e., financing) vs. money out (i.e., Expenses and Extras). A green box indicates a positive balance; a red box indicates a negative balance.

7.2 Annual Plan

The Student Worksheet will help you plot the school year in general terms, but as you’ll soon discover, each year comes with new surprises. Keep the following points in mind along the way.
7.2.1 Freshman Year

As a college newbie, you are overwhelmed with classes, a change in housing and a new learning environment. This year, it’s imperative to adopt a frugal perspective. Starting early is key. With that in mind, consider the following cost-cutting measures:

- **Test out.** Every degree program is saddled with a list of prerequisites: a set of core classes that ensure “educational diversity.” You may find this requirement annoying, especially if the class subjects have nothing to do with your major. The solution? Test out. Many universities allow advanced students to take an equivalency test in exchange for credit. For example, suppose foreign language is a prerequisite for your liberal arts degree. Four years of high school Spanish allows you to pass the college equivalency test and earn 9 credits. Not only will you accelerate your degree, you’ll save thousands of dollars in tuition fees. Talk to your guidance counsellor about your university’s testing policy.

- **Scale back your meal plan.** Dorm living is convenient, but it’s also expensive. The average university provides food priced per meal. 

  **EXAMPLE:**

  - **21 meals per week:** $3,300 per year
  - **14 meals per week:** $2,200 per year

  If you regularly skip meals, avoid paying for more than you consume by scaling back your plan, allowing you to save thousands of dollars each year. If you fear late-night hunger, consider the alternatives, including:

  - Stocking a mini-fridge with low-cost snacks
  - Filling a to-go box with food after eating in the dorm (many universities allow this; check your university’s policy)

- **Ditch the car.** Campus life is filled with transportation options, from buses and trains to walkable areas. Ditch the cost of a car by taking advantage of these opportunities. Opting out of a parking pass, gasoline, insurance and maintenance will help your freshman budget.
• **Rent books.** Depending on your major, those all-important textbooks can cost more than $1,000 a year. The good news is, the university bookstore isn’t the only place to shop. Check Amazon.com for secondhand deals and BookRenter.com and shop around for the best prices.

• **Reduce extras.** The first taste of independence can rack up a hefty price tag. While you may be tempted to splurge and party with friends every weekend, you’ll regret it when the credit card bill arrives. Set a budget at the beginning of the year for miscellaneous costs. For example, if you have $4,500 for the academic year, opt to spend no more than $125 per week. Better yet, slash that amount by 25 percent. Dividing your cash will help you avoid overcharging.

Many of these strategies can be used throughout your academic career. Implement them now and watch your savings add up.

### 7.2.2 Sophomore Year

By now, you are feeling more confident in campus life. You’ve established a budget and feel secure in your spending habits. Turn your focus to the future by:

• **Joining student organizations.** If life’s extras (e.g., entertainment) pulled you down last year, opt for savings by joining a student club or organization. Filling your time with free and career-focused activities will help you save money and prepare for the future. Bonus: Most student organizations provide free pizza.

• **Applying for work-study.** We talked about the benefits of work-study in Section 5.4, and now is the time for action. Pad your bank account and résumé by finding a job that pays well and relates to your major.

• **Paying off student loan interest.** The dangers of student loans are obvious by now. When it comes to unsubsidized loans, accruing interest poses a greater threat. Reduce your post-graduate debt by paying off interest now and continue this practice as you advance.

### 7.2.3 Junior Year

As an upperclassman, your options have changed for the better. Improve your circumstances by opting to:

• **Find cheaper housing.** Renting an apartment with friends can save you thousands of dollars in housing and food costs. You’ll also enjoy the benefit of learning to live independently. It’s a win-win.
• **Consider independent status.** Speaking of independence, claiming yours now could yield big bucks in financial aid and tax breaks. Although state requirements vary, students without parental assistance are considered good candidates. Research your state and university’s requirements or ask the Bursar’s office for help.

• **Apply for internships.** While work-study pays the bills, internships set the stage for long-term success. Gaining work experience is the best way to recommend yourself to future employers. Begin applying for summer internships as soon as possible.

7.2.4  Senior Year

You’ve reached the home stretch! The final year of college is exciting and terrifying. You’re probably anxious about the future. Mitigate your fears by:

• **Sticking to a monthly budget.** In addition to your Student Worksheet, download our *Monthly Budget Worksheet* as you begin senior year. Learning the basics of funding a household will help you transition into a post-grad routine. Practice makes perfect.

• **Befriend professors.** Senior-level classes are often taught by professors with real-world experience and connections. Make a list of educators who inspire you to foster relationships. Buy them a cup of coffee and pick their brains about life after graduation, which companies you should work for, salary, the best city for your degree, etc. If you’re lucky, you’ll earn a few letters of recommendation and a personal job referral.

• **Apply for jobs.** Armed with a degree, work experience and letters of recommendation, it’s time to apply for jobs. Start early and apply often. Many companies are willing to interview students several months before graduation, solidifying your position and salary. Create a LinkedIn profile and if possible, rely on professional references to set up interviews. Utilize online job boards like Indeed.com to get started.

• **Estimate post-grad debt.** The final step into adulthood is estimating debt. Your Student Worksheets have provided a bottom line for each academic year, and now is the time to create a repayment plan. Talk to a financial planner about your options and factor education debt into your budget. You’ve worked hard for a better life. Use your skills to take control.
Works Cited
Works Cited

Section 1: Welcome


Section 2: What is Credit?

Section 3: How Do I Build Credit?


Section 4: How Do I Avoid Credit Pitfalls?


Section 5: How Do I Avoid College Debt?

9. Ibid.
10. Ibid.
13. Ibid.
14. Ibid.
15. Ibid.
16. “If your outstanding federal student loan debt is higher than your annual income or if it represents a significant portion of your annual income, you may want to repay your federal student loans under an income-driven repayment plan,” Federal Student Aid—U.S. Department of Education, n.d., https://studentaid.ed.gov/sa/repay-loans/understand/plans/income-driven

Section 6: How Will Credit Affect My Future?


Section 7: Resources