



# STUDENT ADVOCATES FOR FINANCIAL EDUCATION

## ESTABLISH GOOD CREDIT

A **spending plan** is a future oriented tool people can use to assist in money management. A spending plan has two main components – income and expenses. The income and expenses are estimated guidelines for monetary transactions over a specific time period. After the time period is over, the spending plan is evaluated and revised for the next time period. It is different from income and expense statements because it acts as estimates for the month, whereas the income and expense statement shows the actual transactions for a specified time period.

A **spending plan is important because it:**

- Can give a person a strong sense of where money is going;
- Allows for income and expenditure tracking;
- Helps a person meet financial goals;
- Helps people live within their income and to make ends meet;

Effective spending plans  
can help individuals  
establish good credit

### TYPES OF CREDIT

#### Installment Credit

- A one time loan
- Amount must be paid in equal installments over a specified period of time
- Has agreement outlining repayment terms including number of payments, amount of payment, and interest rates and/or fees
- *Example:* mortgages or auto loans

#### Non-installment Credit

- Open-ended credit of predetermined amount, or line-of-credit
- Borrower does not have to reapply
- Credit can be repaid in one single payment or a series of equal payments
- Usually has minimum monthly payment
- *Example:* credit cards

To **earn and establish good credit**, an individual must establish a good credit rating. This is often very difficult for young adults just entering the “real world.” The following are tips for a person to establish a credit rating:

- Open a checking and savings account; do not overdraw your checking account. Checking with overdraft protection is expensive and frequent use can hurt your credit.
- Put telephone and utility bills in own name to develop a history of paying bills on time and demonstrate good money management skills.
- Apply for a low limit bank credit card or a short term loan as banks are sometimes more willing to give a \$500 limit credit card or short term loan to someone without a credit history. By using it occasionally and paying it off monthly one demonstrates the ability to use credit wisely.
- Payoff student loans consistently and on time to demonstrate responsibility.
- Higher rate loans such as credit cards should be paid off first.



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## FAQ'S ABOUT CREDIT

### What is credit and why is it useful?

Credit is essentially an contract by which goods, services, or money are received in exchange for an agreement to pay a specific amount of money at a later date. Credit is a loan on future earnings. Credit is useful because it allows us to purchase goods and services that one may not be able to do so otherwise, including attending college, purchasing vehicles or other large ticket items, and buying a home.

### Why is a good credit important?

Good credit leads to more credit, while bad credit leads to no credit. In other words, when applying for a loan, credit card, insurance, or even a job or a lease, it is important that a credit report shows financial reliability. If bills are paid late, loans are left unpaid, and/or credit cards are maxed out with only the minimum balance paid each month, prospective creditors see the person as not financially reliable enough to pay back a loan. Not only do creditors use credit reports to determine loan qualification, they also use it to determine the loan interest rate. Thus, the better the credit rating is, the lower the interest rate will be. Insurance companies also review credit reports when quoting rates, landlords may review them before offering a lease, and some employers use credit as a sign of overall responsibility.

### What is a credit report and when is it used?

A credit report is a history of ones bill paying habits and creditworthiness; think of it as a resume of financial, and sometimes personal, reliability. Items that appear on a credit report include but are not limited to: utility and medical bills, rent payments, credit cards, car and school loans, and mortgages. Credit reports are used by financial institutions, courts, creditors, landlords, insurance companies, and some employers.

### How often should a person check their credit report?

A person should check their credit report annually. Starting in December 2004, individuals are able to receive one free credit report per year from each of the three credit reporting agencies. Check all three credit reporting agencies to be sure each credit report is accurate, because sometimes credit reports are not correct. To contest an item on your report, you must contact each of the three agencies and request a correction. To receive your free credit reports go to: [www.annualcreditreport.com](http://www.annualcreditreport.com) , call: 877-322-8228, or write: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281. For additional credit report information, contact each reporting agency using the websites listed below.

**Equifax:** [www.equifax.com](http://www.equifax.com)

**TransUnion:** [www.transunion.com](http://www.transunion.com)

**Experian:** [www.experian.com](http://www.experian.com)

## HOW DO I WORK TOWARDS GOOD CREDIT?

- Implement a spending plan each month and stick to it.
- Pay bills on time to avoid late charges.
- Try to pay-off credit cards in full each month; at least pay more than the minimum balance on them and all loans.
- Do not skip payments.
- If you have not already, open both a checking and/or savings account and learn how to manage them.
- Take out a small short term cash loan. Place the money in a savings account, then make the monthly payments from the same account.
- Pay loans off as quickly as possible.
- Do not spend more than you earn.
- Do not apply for and/or accept every credit card offer received.
- Do not "max-out" credit cards.
- Do not apply for new cards if old cards have balances.
- Close-out credit card accounts not being used.
- Do not give out card number unless you've initiated the transaction and be alert to thieves and scams.