

STOCKTON CENTER FOR
ECONOMIC & FINANCIAL LITERACY
THE RICHARD STOCKTON COLLEGE OF NEW JERSEY



Stockton Peer Financial Education Program
How to Build Up Your Credit Score



Do you know how to build up your credit score? We didn't think so... But do not fear! FinLit Peer Educators are here!

So why is it important to build up your credit score? Here are some reasons:

- You can get faster loans.
- Your credit "mistakes" count for less.
- More credit is available for you.
- Your interest rates for money you borrow will be *lower* overall!

So what is the problem? Well, most college students have no idea how to build up their credit, let alone establish any credit at all. For some, the problem might be that they might have an already tarnished credit score and they do not know how to improve it. Others do not know how important paying off credit cards really is. They do not know how missed or late payments could affect them in the future.

An Example ...

Joe S. is a 19 year old college student at The Richard Stockton College of New Jersey. He recently applied for a credit card with a company that he has never heard of, but the sound of free money excited him. He received his card in the mail a week later and bought the \$1,500 MacBook laptop that he had always dreamed of owning. However, he did not notice the outrageous interest rate of 22.01% that the credit card company charged each month that he went without paying his balance in full. He also missed a couple payments each month but didn't really care or think anything of it. Fast forward a couple months and Joe Shmoe decides to check his credit score on a whim. He realizes that his credit score is super low and he has no idea how what he is going to do. "I wish I had gone over to that FinLit Peer Education table that I saw in the Campus Center," Joe said with a sigh. Don't worry Joe, it's never too late to begin mending your credit score.

Dear Peer Financial Educators,

"I can't get approved for ANY credit cards! How will I ever establish my own credit?"

Sincerely, Dumbfounded

Dear Dumbfounded,

"We know it's hard out there, establishing good credit. Here are a few pointers. *Start with your bank.* When you have active bank accounts in good standing, you are proving that you can manage money. While bank accounts aren't typically a part of your credit score, lenders can use this information to determine whether or not you are a credit risk. *Consider a department store credit card.* While shopping, you may be asked if you'd like to sign up for their store credit card to save 10% on your purchase. Generally, store cards are a bad idea because they lure you in with that up-front discount, and then the ongoing interest rate is very high. Avoiding these cards is typically a good idea, but the ease in obtaining one may actually be a good thing if you're having trouble establishing credit. If you have struck out at the local bank, you may want to consider checking with one of the local stores and see what type of cards they offer. Whatever you do, make sure you find out whether or not they report to the credit bureaus. If they don't, it will do you no good. When it comes down to shopping for credit cards, make sure to use the rule of 3; compare 3 different cards and choose the one with a lower interest rate.¹"

Dear Peer Financial Educators,
“My credit score stinks! How can I build it back up?”
Sincerely, Hopeless

Dear Hopeless,

“Don’t worry, you’re not alone. There are so many others out in this big old world that have low credit scores. What can you do? Here’s some advice. First and foremost, check your credit report! Go to annualcreditreport.com to request a free copy of your credit report and check it for errors and fraud.² This is the only source for a free report. Do not be swayed by scams like freecreditreport.com. Second, if you have debt, pay off the debts with the highest interest rates FIRST! Make sure that you get into the habit of paying ALL of your bills on time to avoid to extra fees and charges. If you have missed payments, try to get back on track and stay on track. Remember, get current and stay current! In the end, if none of these tactics seem to work for you, contact a financial counselor. They will be able to find other ways that will help resolve your debt problems. A good website you can check out is www.novadebt.org, a non-profit credit counseling firm.”

Dear Peer Financial Educators,
“What are some other helpful facts that I could know about credit?”
Sincerely, Curious

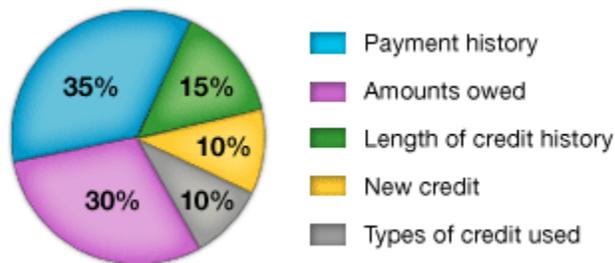
Dear Curious,

“Glad you asked! You should totally have a knowledge about the Five C’s of Credit. They are character, capacity, capital, collateral, and conditions. Ask yourself these five questions:

- Do you pay your bills on time?
- Can you repay the loan?
- What are your assets and net worth?
- What assets do you have to secure the loan?
- How do your economic conditions affect your ability to pay your loan off?

Also, you should know about what is a good credit score and what isn’t. Credit scores range from 350 to 850. A good credit score is in the bracket of 700 to 850. When you check your credit score, there are three major credit bureaus that obtain information from banks, finance companies, credit card companies, and other lenders. These are TransUnion, Equifax, and Experian.

This is how credit card companies break down your credit score³:



References:

¹ See <http://financialplan.about.com/od/creditdebtmanagement/a/nocredit.htm>

² See <http://www.annualcreditreport.com>

³ See <http://www.myfico.com/crediteducation/WhatsInYourScore.aspx>

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