

Good Credit

Your Most Important Financial Asset

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It's no stretch to say that establishing good credit is the most important thing you can do in your early financial life. Credit scores play a huge role — now and throughout life — in how you will be able to access and use money. You can't get a loan at a decent interest rate to buy a car or a home without good credit. Your credit score could impact your ability to rent an apartment or even get the job you want.

Your access to credit is determined by your credit score, which is maintained by three credit agencies: Equifax, Experian and TransUnion. The three companies track your history and assign you a score from 300 to 850 — 850 being the best.

The credit companies use five factors, separately weighted, to determine your credit score. The five and how they are weighted:

- Your payment history accounts for 35 percent of your score
- The amount of debt you have accounts for 30 percent of your score (so keep credit card amounts low)
- The length of your credit history accounts for 15 percent of your score
- Opening new accounts is 10 percent of yours score (new accounts lower your score by lowering your average account age)
- Credit mix accounts for 10 percent of your score (showing you can manage different types of debt skillfully makes you a better credit risk)

Regardless of what you might have heard about credit breaches at one or more of these companies, achieving and maintaining a high score with all three is critical. And just as important is monitoring your credit score. Take advantage of your opportunities to check on it, and consider freezing your credit with those companies when you're not applying for credit somewhere. That will help you protect your good credit from being used by some cyber thief.

The first step to developing a good credit score is creating a budget for paying down debt. Know your monthly expenses — including student loan payments, rent, utilities, car payment — as to how they compare to your earnings. You can use one of the many online budgeting apps to track your spending, so you can see where you can cut



back or where you can spend more. We recommend that you use autopay for your student loan payments so the money is automatically paid from your bank account and you don't run the risk of late or missed payments. If you have trouble keeping up with your student loan payments, there are options, like the income-based repayment plans, offered by the federal government. The government also sponsors a variety of student loan forgiveness programs; go online and determine if you might qualify for one of them.

Credit cards are a double-edged sword. While the average student loan debt is currently around \$33,000, millennials between the ages of 25 and 34 average \$42,000 in credit card debt. Too many Americans rely on credit cards to make up the difference between their income and their expenses. On the other hand, paying your credit card charges in full each month by their due dates is a great way — one of the best and fastest ways — to compile a good credit score. The best advice on credit cards is to use them like cash — that is, when you charge something on a credit card, deduct that amount from your bank balance so you know you have enough to pay the card balance at the end of each billing cycle.

A few other points about credit cards:

- Get two major credit cards but only use one each month, then switch to the other the following month. Keeping them paid up and keeping them active will help your score.
- Open other accounts, like retailers' cards, sparingly and be mindful of their annual percentage rates (APRs).
- Keep an eye out for unauthorized users from the Dark Web by monitoring your accounts and signing up for the security alerts that major card issuers provide.

It is critically important to your financial life to establish good credit. And the easiest way to do so is to start right out of the gate. While building good credit takes some discipline, it can take several years to recover from a bad credit score.

Finally, remember that managing credit is just one aspect of working toward a solid financial future. If you need help or simply want to be sure you're getting off to a good start, consult a financial advisor.



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