

Junior Achievement: Understanding Credit

CREDIT FACTS

1. Tips to maintain healthy credit

- **Check your credit regularly.** You are allowed one free credit report from each of the three credit agencies (Equifax, Experian, and TransUnion) each year.
- **Pay your bills on time.** If you ever get into financial trouble and can't pay a bill, contact the company and ask about options. Lenders are often willing to help.
- Keep how much you owe **less than the maximum** you could borrow.
- **Call 888-5-OPT-OUT** and remove your name from lenders' preapproved lists to avoid unnecessary checks on your credit.
- **Think twice before co-signing a loan for another person.** If he or she doesn't pay, you will be held responsible, and your credit could be ruined.
- Know what you're agreeing to—**always read the fine print** on credit offers and credit repair offers.

2. Credit cards

- When the budget gets tight, it is easy to reach for the credit card instead of making cuts elsewhere. But paying interest on those cards takes even more money from the budget in the future.
- **Leave accounts open for several years and use them regularly** to show activity. Frequently getting new cards, or having cards you never use, can hurt your credit score.
- Only use a credit card if you know where the money is coming from to pay it off.

3. Student loans

- On average, higher education increases income, but too much debt from student loans can be harmful to personal finances.
- If you are unable to cover the cost of higher education with your savings and income, or through grants and scholarships, you may consider getting a loan.
- If possible, **plan early and build savings** to minimize the need for student loans.
- **Research scholarships, grants, and other sources of money** that don't require taking on debt.
- **Research the fine print** on any loan; shop for the best interest rate and loan package.

4. Other credit resources

Payday and installment loans

- These loans can often have **extremely high interest rates** and a **very short time** in which to pay them back.
- **Only take the loan if you have a plan to pay it back plus interest on time.**

Pawn shops

- Pawn shops offer either cash or a loan in exchange for an item. If the loan is not repaid with interest, the shop will sell the item to pay the debt.
- **Only take the loan if you have a plan to pay it back plus interest**—or if you're willing to lose the item you leave there.

Rent-to-own

- Rent-to-own stores offer high-cost items in exchange for a monthly rent. Once a predetermined amount has been paid, the consumer owns the item.
- **Consumers can end up paying several times the actual price of the item**, so it's important to **read the fine print** and **exercise caution** before using these services.

5. Who cares about your credit?

- In addition to banks and other financial institutions that give you credit, a surprising number of other groups care about how good your credit is.
- **Car and home or rental insurance companies:** You may pay more for insurance or be denied a policy if your credit is bad.
- **Utility companies:** Electricity, gas, water, phone, and other utility companies want customers with a history of paying bills on time.
- **Landlords:** Landlords use credit reports to screen for people with a history of not paying their debts.
- **Employers:** Many companies will review your credit report before offering you a job. Your credit report is your reputation, and they are looking for clues about what kind of employee you will be. If you have bad credit, some jobs may exclude you from applying.