Your financial future starts right here, right now.

WiseBorrower® Education Series
What's behind the Credit Smart Series?

Credit Basics is part of the Credit Smart Series. These booklets are designed to help you, as a student, establish financial management skills that will serve you well this year, in five years and throughout your life. Being Credit Smart is a "strategy for a lifetime."

The Credit Smart Series includes:

Credit Basics
Credit Reporting
Credit Scoring
Credit Safe
Repairing Credit Problems
Credit Card Basics

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THE GOOD, THE BAD, AND THE IMPORTANT THINGS TO KNOW ABOUT CREDIT.

The world seems to run on credit nowadays. Many of us have school, car and even home loans. And we likely all have one or more credit cards in our wallet. Problem is, we don’t give credit the amount of thought we should. At its best, credit can help us manage our financial lives. At its worst, it can get us into serious financial trouble. This booklet is designed to provide a primer on credit. While it is geared toward you as a student, it contains information and tips that you can carry with you for a lifetime.

We’ve left plenty of room for you to jot down notes. Use the space in any way that works for you. You can remind yourself of important points, list questions you want answers to, and make note of circumstances and situations in your life that relate to the topics being discussed.

What exactly do you need to know?

We’ll start by taking a look at what credit is and why having good credit is important. We’ll explore what it takes to get credit, the role of credit cards, and how you should manage them. And we’ll discuss how you can develop and maintain good credit.

Let’s start with a quick test. In your opinion, which of these statements is true?

- Credit is the temporary use of someone else’s money...
- Credit is a measure of your financial trustworthiness...
- Credit is a financial obligation you have to repay...
- Credit is debt accumulated from a credit card or loan...

You’re right, it was a trick question. All of the statements describe credit. Credit is any debt you’ve accumulated either from using a credit card, borrowing through a student loan or car loan, a line of credit, mortgage, home equity loan, or personal loan.
Basically, having credit means you’ve been given the ability to borrow money from someone and you’ve agreed to pay it back over time, usually with interest.

And, something to keep in mind...

Having a cell phone account or an apartment lease doesn’t mean you have a credit history. While you do need to pay your phone bill and your rent, doing so doesn’t have much of an impact on your credit rating. The twist? NOT paying those things could show up negatively on your credit history because you’ve failed to pay as agreed.

**WHY HAVING GOOD CREDIT IS IMPORTANT.**

This probably isn’t anything you don’t already know. But it’s all worth repeating. Among other things you may need good credit to:

- Qualify for various education loan programs such as Federal PLUS and private loans
- Get the job you want
- Obtain affordable insurance
- Achieve financial goals like buying a home or financing a professional practice

Simply, your credit history is one of the primary tools that credit grantors use to determine if they’ll lend you money, how much, and under what terms. It makes sense that the better your credit history, the more likely you’ll be able to obtain the financing you need at favorable terms when you need it. And it’s important to think about the future. You don’t want your credit history to get in the way of achieving personal or professional goals.
What it (usually) takes to get credit.

To obtain credit you have to be financially responsible and you may need to meet a minimum age requirement. You may also need to prove that:

- You’ve been repaying your debts and managing credit in the past
- You have sufficient collateral from which you could repay your debt if necessary
- You have sufficient income to repay what you borrow

To qualify for federal student loans you do not need to be currently employed.

THE “3C’s” OF CREDIT.

This is a fast and easy way to remember what it takes to get credit. The “3C’s” summarize your ability to get credit. The “3C’s” are:

- **Character**
- **Capital**
- **Capacity**

**Character** refers to your history of handling credit. Are you honest and reliable? Do you pay your bills on time? Good credit management will show up on your credit report. Lenders want to know if you pay your bills on time (particularly your debts), how much debt you currently owe, how long you’ve had credit, how frequently you apply for new credit and what types of credit you’ve obtained in the past.

**Capital** refers to assets that you own such as real estate, personal property, savings, automobiles, and other “collateral” that can be used to repay credit debts if income is not available.

**Capacity** is a measure of your ability to repay a debt. Do you have a steady source of income and is it enough to repay all that you owe as well as the new loan you’re trying to borrow? And will that income also be enough to meet your other monthly expenses such as rent, food and transportation?
A creditor may not evaluate all three C’s in all cases because credit products vary. For example, Capacity is not usually considered in the case of student loans and, to get a Federal Direct Subsidized or Unsubsidized Loan, none of the C’s is used. However, Character is still an important factor if you try to obtain a Grad PLUS loan, because you can’t have adverse credit in order to obtain the loan on your own signature.

If you are not able to show that you have the 3C’s, does it mean that you won’t be able to get credit? Not necessarily, but it might make getting credit more difficult and/or more expensive.

**It is much better to know than not to know.**

If you want to check to see if you have a credit history, go to: AnnualCreditReport.com. You are entitled to a free credit report from each of the three national consumer reporting agencies (Equifax, Experian and TransUnion) once every 12 months. Be careful and watch out for other ways that claim to provide you with a free credit report as there is typically a hidden fee associated with additional services such as credit monitoring.

**Here are some ways to establish good credit.**

Current wisdom suggests that you first open a checking or savings account. Then create a spending plan. Once you’ve established your budget, apply for a credit card and charge a purchase or purchases. Don’t open numerous accounts just because you can. One will do. Most importantly, make your credit card payment on time and pay the balance in full each month to avoid accumulating debt! You do not have to use your credit card a lot – making one purchase a month (like groceries) is sufficient. The point is to build a credit history without accumulating any debt.

**QUESTION:** Is paying your credit card bills on time each month both necessary and sufficient for having good credit?

**ANSWER:** No. Paying your bills on time is necessary but it’s not enough. All of the information in regard to your handling of your credit accounts will affect your credit history. It will take into consideration things like how long you’ve had a credit card(s), whether you’ve had outstanding debt, how often you use credit, the frequency with which you open new accounts, and so on.
THE GOLDEN RULE:
PAY ALL OF YOUR BILLS ON TIME.

If you live by certain rules, you will put yourself in the best position to develop and maintain a good credit history.

- Pay all of your bills on time. This is the MOST important thing you can do. This doesn't only refer to paying credit card bills, but all of your bills such as mortgage, car payments and student loan payments. In fact, it's not just about your debts. If your rent, cable, phone or utility bills become seriously delinquent, that could show up on your credit history and cause problems for you. Non-payment or late payment could impact your ability to obtain credit in the future. Missing a payment by just one month can end up as a negative mark on your credit report, something you may find yourself having to explain years later.

We recommend that you make bill paying as systematic a process as you can. Keep your bills in a safe place and keep track of all payment due dates. Schedule a regular time to sit down and pay your bills. Of course, be sure you have sufficient funds to cover the payments, and keep a record of when you paid. You should also consider using auto-pay features and online payment options.

- Notify all creditors promptly of changes in address, etc.

- Limit your use of credit cards for credit, and when you use them, pay the bills in full each month. It's okay to use credit cards for convenience. It's not okay to use them for credit which can put you in debt.

- Minimize your debt, especially from credit cards.

- And finally, be sure to review your credit reports annually for accuracy, and to be certain that you haven't become a victim of identity theft.

For more information

Do you want more information about the basics of credit? The best place to start your search is the Federal Trade Commission (FTC) website at ftc.gov. Once there, simply search for information on “credit.”
Your financial future starts right here, right now.

Our mission at Access Group

For more than 25 years, Access Group has made higher education available to students as a nonprofit loan provider, financial literacy educator and loan servicer. We are proud to have successfully guided thousands of students, like you, through the financial aid process. Today, we are excited about and thoroughly committed to furthering our mission of providing financial support and solutions to help aspiring professionals achieve success.

This workbook and the full breadth of the WiseBorrower® Education Series are important tools designed to help students begin their careers on solid financial footing. It is all part of our ongoing commitment to provide resources, enhance financial literacy and support higher education administrators and students in and out of school.