May 2018 Newsletter

What's the "magic" to Good Credit?

Most of you know that I teach a personal financial management course for college students. My goal is to teach them concepts that they can apply to their lives today and use as a foundation for their future personal finance needs. I am always emphasizing to them how to maintain good credit and I thought that I would highlight that for my May newsletter.

The first thing that I tell my students about maintaining good credit is that there is NO magic to good credit. The two most important ways to keep your credit good is – pay your bills on time and keep your debt low. That's it. It's actually simple in theory but I do understand that it's not always simple in reality.

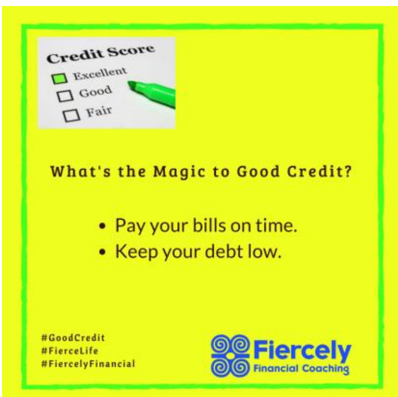
As I look at my client's credit reports, one of the most consistent ways that I see them struggling with their credit is with credit cards. I emphasize with my clients and students that credit cards are one of the fastest ways to establish credit but they are also one of the fastest ways to ruin your credit.

The best way to use credit cards is this simple rule:
Only charge what you can pay in full each month. That's it. If you charge $100, then you should be comfortable with paying $100 when you receive your bill. If you know you can't, then only charge $50 if that is what you can pay in full.

When you are thinking about big purchases, make a plan to save for these purchases so that you don't have to use your credit card. But if you must charge a big purchase, you should have a plan to split up that bill over 3 to 4 months to pay it off in full.

Where most people get in trouble with credit cards is only paying the minimum payment each month. While this will give you a good payment history, over time this will create more debt than you can manage and after awhile you will struggle to make even the minimum payment.

So remember that your credit score is calculated based on 5 things and the two highest are your payment history (35%) and how much debt you owe (30%). That means 65% of your score is based on how you pay and how much you owe.



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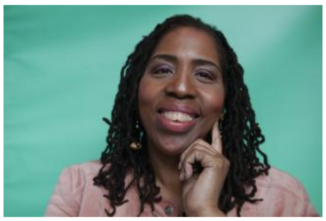
Until next month…be fierce in your finances!

Audrey



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