

FAQ #1

What exactly is credit?

The term credit describes an arrangement in which goods, services, or money is received in exchange for a promise to repay at a future date. Often, consumer credit is either:

- A loan that is repaid in equal payments over a set period of time
- Credit cards, which allow repeated use of credit as long as regular, monthly payments are made

FAQ #2

Are there disadvantages to credit use?

Credit use can have downsides. Negative aspects include:

- Negative Effect on Financial Flexibility

The money that you pay each month on your debt is money you could have spent elsewhere on other opportunities. Credit use also reduces your future buying power, as the money you pay out on a loan includes a finance charge as well as the principal.

- It is Tempting to Spend More Money

A major disadvantage of credit is that its use can lead to overspending. Once you begin carrying credit card debt, it may seem easier to buy more on credit, especially if you have more than 3 or 4 cards - as is typical for US credit card holders.

- You Can Become Financially Overstretched

Consumers with monthly non mortgage debt repayments amounting to 15% of monthly take-home pay are considered to be dangerously in debt and run the risk of financial problems.

- Interest is Costly

Interest is the price of credit. In other words, it is the rent you pay while you use someone else's money.

FAQ #3

Should I use a credit card?

Many people are afraid of using credit cards. If used correctly, credit cards can be a useful financial tool.

Advantages of credit card use include:

- Can Build Good Credit - If you use credit wisely, you will build a good credit score (For more about credit scores, see FAQ #4)
- Can Be Used in Emergencies - Some people use credit to pay for unexpected expenses such as automobile repairs
- Can Take Advantage of Free Credit - Retailers sometimes offer free credit for a period of time to allow the buyer to pay later without having to pay finance charges

Before deciding to use credit, students should make sure they embrace the financial habits of good credit users, including:

- They are able to discipline themselves to use credit cards to purchase only what they can afford
- They understand the importance of paying off their entire credit card balance each time they get a credit card bill so they prevent wasting money on interest
- Understand their credit management habits will affect their credit score, which will affect their financial future (For more about credit scores, see FAQ #4)

NOTE: The Credit CARD Protection Act of 2009, signed into law by President Obama on Feb. 22, 2010, contains new protections for college students. Highlights from this act include:

- A credit card cannot be issued to a person under the age of 21, without a co-signer over 21 years of age, or without proof of means to repay.
- Prohibits banks from providing promotional items, such as pizza coupons, to entice students to take on debt by signing up for their credit cards.
- Requires card companies to give a 45-day notice of any rate increases.

FAQ #4

What is a credit score?

First, it's important to recognize the difference between credit reports and credit scores. A credit report is a record of your history of your bill and debt payments. The information in your credit report is voluntarily given to the 3 credit reporting bureaus: Equifax, Experian, and Transunion by companies that you make payments to. The items in your credit report determine your credit score - a numerical value ranging from 300-850. The average credit score is around 700. Companies use credit scores to determine if you would be someone that would pay back money that they let you borrow.

Having a high credit score will save you money through lower interest rates on mortgages, auto loans, and insurance rates. Having a low credit score could prevent you from getting an apartment. Employers often check credit reports to help them determine if you would be a responsible employee.

Credit scores change gradually as you change the way you handle credit. For example, past credit problems impact your score less as time passes.

Many other things also affect your credit score. These include your payment history, the amounts you owe, length of credit, new credit accounts, and types of credit used. (See Chart)

FAQ #5

What can I do to ensure I manage credit wisely & create a good credit score?

- Realize that credit scores DON'T just include credit cards. Any time you are making a payment, your payment history could be reported to the credit report bureaus. Items could include: Rent, Utilities, Student Loans, Auto Loans, Personal Loans, etc. Remember, Your lender has the choice to report your bill paying habits to the 3 major credit reporting bureaus.
- Pay Bills on Time
Delinquent payments, even if only a few days late, and collections can have a major negative impact on your FICO score - dropping your score as much as 60 points.
- Only Use 30% of Credit Available
High outstanding debt can affect a credit score.
- If you have been managing credit for a short time, don't open a lot of new accounts too rapidly.
- Once you have an account opened, leave it open to maintain a long account history.
- New accounts will lower your average account age, which will have a larger effect on your score if you don't have a lot of other credit information. Also, rapid account buildup can look risky if you are a new credit user.
- Know that installment type loans raise scores.
Including Auto loans, Student loans, Personal loans, Mortgages.

FAQ #6

What should I look for in a good credit card?

When choosing a credit card, there are four things you should look at:

- APR (Annual Percentage Rate) - The total cost to use credit in a year. The lower the APR, the better. For example, if one month you are not able to pay your balance in full, the lower the APR, the less you will pay in interest.
- Grace Period - This is the amount of time, usually 20 to 25 days, during which you don't have to pay interest on purchases made with a credit card if you have no outstanding balance on your card. Knowing how long your grace period is will help you know the amount of time you have before you will be charged interest for using your card.
- Fees - The fees you are charged to use credit include: Annual Credit Card Fee, Over-the-Limit Fee, and Balance Transfer Fee. Look for cards that have little to no fees.

- Rewards - Rewards are one of the perks of having a credit card. They will vary from card to card. For example there are cards that give you points for buying airline tickets and once you have enough points you can get a free ticket.

FAQ #7

Are there other ways students can build credit besides having a credit card?

If students are not able to receive a credit card on their own and wish to start building credit, they can:

- Ask their parents if they will add them to their credit accounts. If parents are responsible with their credit, the student's credit score will also rise.
- Make sure cell phone bills and, if they move off campus, utilities and apartment leases are in their name. If these companies are not reporting bill paying behavior to the credit reporting bureaus, students can ask them to.
- Apply for a secured credit card. With secured cards, applicants make a deposit say, \$200 to \$500 which serves as the credit limit on the account for the next 12 to 18 months. (Since borrowers are borrowing against their own funds, lenders tend to be more lenient about application standards.) As long as the cardholder pays on time and keeps their balance in check, the issuer typically promotes them to a regular, unsecured card.

FAQ #8

Where can I check my credit score? What if I find out there's a mistake on my credit report?

You can check your credit score for free at www.annualcreditreport.com. You can get one free credit report from each of the 3 credit reporting bureaus, so 3 credit reports each year. NOTE: The 3 credit reporting bureau may receive different information, so credit reports may vary slightly.

The following information is from www.fico.com.

To insure that the mistake gets corrected as quickly as possible, contact both the credit bureau and organization that provided the information to the bureau. Both these parties are responsible for correcting inaccurate or incomplete information in your report under the Fair Credit Reporting Act.

First, tell the credit bureau in writing what information you believe is inaccurate. The credit bureau must investigate the item(s) in question - usually within 30 days - unless they consider your dispute frivolous. Include copies (NOT originals) of documents that support your position. In addition to providing your complete name and address, your letter should:

- Clearly identify each item in your report you dispute.
- State the facts and explain why you dispute the information.

- Request deletion or correction.

Send your letter by certified mail, return receipt requested, so you can document that the credit bureau received your correspondence. Keep copies of your dispute letter and enclosures.

Second, write to the appropriate creditor or other information provider, explaining that you are disputing the information provided to the bureau. Again, include copies of documents that support your position. Many providers specify an address for disputes. If the provider again reports the same information to a bureau, it must include a notice of your dispute. Request that the provider copy you on correspondence they send to the bureau. Expect this process to take between 30 and 90 days.

FAQ #9

What if I check my credit score and it's really low?

The following information is from www.fico.com.

The first 3 things you should do:

1. Make Sure Your Credit Report Doesn't Have Any Mistakes

In particular, check to make sure that there are no late payments incorrectly listed for any of your accounts and that the amounts owed for each of your open accounts is correct. If you find errors on any of your reports, dispute them with the credit bureau and reporting agency.

2. Setup Payment Reminders

Making your credit payments on time is one of the biggest contributing factors to your credit score. Some banks offer payment reminders through their online banking portals that can send you an email or text message reminding you when a payment is due. You could also consider enrolling in automatic payments through your credit card and loan providers to have payments automatically debited from your bank account.

3. Reduce the Amount of Debt You Owe

This is easier said than done, but reducing the amount that you owe is going to be a far more satisfying achievement than improving your credit score. The first thing you need to do is stop using your credit cards. Use your credit report to make a list of all of your accounts and then go online or check recent statements to determine how much you owe on each account and what interest rate they are charging you. Come up with a payment plan that puts most of your available budget for debt payments towards the highest interest cards first, while maintaining minimum payments on your other accounts.

Also:

- If you have missed payments, get current and stay current.

The longer you pay your bills on time after being late, the more your FICO score should increase. Older credit problems count for less, so poor credit performance won't haunt you forever. The impact of past credit problems on your FICO score fades as time passes and as recent good payment patterns show up on your credit report. And good FICO scores weigh any credit problems against the positive information that says you're managing your credit well.

- Be aware that paying off a collection account will not remove it from your credit report. It will stay on your report for seven years.
- Pay off debt rather than moving it around.
- The most effective way to improve your credit score in this area is by paying down your revolving (credit cards) debt. In fact, owing the same amount but having fewer open accounts may lower your score.
- Don't close unused credit cards as a short-term strategy to raise your score. And don't open a number of new credit cards that you don't need, just to increase your available credit. This approach could backfire and actually lower your credit score.

FAQ #10

What's the most important thing to know about student loans?

Understand that if you do take out student loans, you will have to pay interest (the cost of borrowing money), which adds up faster than you think!

Here's an example: If you graduate with around \$21,000 (average for most UNL students) and take 10 years to pay it back:

- Monthly Loan Payment: \$242
- Number of Payments: 120
- Cumulative Payments: \$29,000
- Total Interest Paid: \$8,000

Our best tip for reducing student loan debt? ONLY BORROW WHAT IS NECESSARY! Try to graduate with as little student loan debt as possible!

A good rule of thumb is that for the Stafford Loan, the manageable debt load is about the same as your starting salary.

FAQ #11

I don't understand all this student loan jargon! What loan is what?

Know this Term: Interest

When you borrow money, you have to pay the borrower a fee for borrowing the money, called interest.

Know this Term: Grace Period

The period of time a lender provides for a borrower before the borrower has to make payments on the debt.

Know this Term: Federal Student Loan

A loan given to a student by the US government.

Know this Term: Private Student Loan

A loan given to a student by a bank or credit union.

Know this Term: Deferment

A period of time during which your loan holder suspends your regular loan payments.

BEST OPTION for Financial Aid: Grants

Do not require repayment. They are awarded to undergraduate students who demonstrate financial need. For example, Federal Pell Grants provide a foundation of financial assistance to which other forms of aid may be added. Undergraduate students who establish eligibility for this program will receive a grant based on their estimated family contribution and the cost of attendance.

BEST OPTION for Financial Aid: Scholarships

UNL offers several FRESHMAN SCHOLARSHIPS based on one of many different factors: high school rank, ACT or SAT scores, state of legal residence, leadership and financial need. UNDERGRADUATE SCHOLARSHIPS can be obtained by completing the online Scholarship Application for Current Undergraduate Students available on MyRed and through individual colleges.

BEST OPTION for Financial Aid: Federal Work Study

Part-time jobs during the academic year and full- or part-time jobs during the summer for students who demonstrate exceptional financial need and who must earn a part of their educational expenses. Jobs may be on- or off-campus with a public or private nonprofit agency including jobs in community service

areas. Part-time FWS students work 10-20 hours per week and will receive a paycheck every two weeks for the actual number of hours worked. Need to find a work study job? Check out Husker Hire Link.

FAQ #12

Once I know my financial aid options, what should I do? How much should I borrow?

A good rule of thumb is that for the Stafford Loan, the manageable debt load is about the same as your starting salary.

- Understand How Much Free Money You Are Getting
 - You will get notification of how many grants and scholarships you are getting.
- Determine How Much More Money You Need
- Current Costs of Attending UNL
- Talk to Your Parents

If you need to take out loans, talk to your parents to see if they want to take out parent loans, which are Federal Direct PLUS Loans, or if you want to take out Stafford Loans.

- Take Out SUBSIDIZED Loans First
The loans you DO NOT pay interest on.

- Then Take Out UNSUBSIDIZED Loans
The loans you DO pay interest on.

- ONLY BORROW WHAT IS NECESSARY!
Student loans should only cover necessary costs like tuition, room & board, books, and school supplies.

One thing you can do that will help hinder you from taking out too much is to determine how much your monthly payments will be and how much interest you pay on your loans by using this easy-to-understand Student Loan Calculator.

Good Guidelines

- Plan for no more than 10%-15% of the expected monthly gross income from your first job going for repayment of all loans.
- Going over 15% would mean you probably will not be able to buy a new car.
- 20% is the start of the "danger zone" when loan debt is out of control

FAQ #13

Do student loans affect credit scores?

Yes, when you start making student loan payments, your credit score should be positively affected. However, if you DO NOT pay your student loans on time, your credit score will decrease.

Why Is a Good Credit Score Important?

Your credit score is an indicator of your use and repayment of borrowed money over time - a numerical value ranging from 300 to 850 - average of 700. If you have a low score, you will pay more for mortgages, loans, and insurance, and may be prevented from getting an apartment, and in some cases, even a job.