Building Credit and Managing Debt

Grinnell College
Office of Financial Aid

College is a good time to start building credit and learning how to manage payments and debt. Responsibly managing money now can set you up for financial success in the future.

What is a credit score?

In the United States, everyone has a credit score that falls between 300 (poor) and 850 (excellent) that represents the risk a lender would take on by lending money to that person.[1] No one starts with good credit. Instead, each individual must build up their credit over time by demonstrating that they can manage debts and make payments on time.

How can I find more information about my credit score?

Federal law requires that each of the nationwide credit reporting agencies (Transunion, Equifax, and Experian) provide you with a free credit report every 12 months if requested. You can request your annual credit report online. The credit report may not share your credit score, but you can review your personal information, accounts, and loans to ensure they are accurate.[2]

You can also use a free credit monitoring service to track your credit score more closely. These services may notify you of irregularities or provide you with personalized advice to improve your score.

Why should I care about my credit score?

Your credit score may impact your ability to:

- Finance a car or a home
- Rent an apartment
- Borrow a loan
- Secure a loan at a lower interest rate or with more favorable terms[3]

Some of these milestones may seem far in the future, but you may encounter others while you are a student. For example, you might rent an apartment for a summer internship or in Grinnell as an upperclassman. Your credit score could impact your ability to rent the apartment you want.

How can I build my credit history and improve my score?

There are many ways you can improve your credit score. Some options include:

- Apply for a low-limit or basic credit card and make regular payments on time
- If you already have a credit card, request an increase to your credit limit
- Apply for a loan (student, car, etc.) and make regular payments on time[4]

The key is to always make payments on time. Making payments late or not at all can damage your credit score, and it can be difficult to build it back up.

1. Stefan Lembo Stolba, "How to Build Credit," Ask Experian (blog), April 9, 2021, https://www.experian.com/blogs/ask-experian/credit-education/improving credit/building-credit/.
2. Annual Credit Report, accessed August 23, 2021, https://www.annualcreditreport.com/index.action.
3. Lembo Stolba, "How to Build Credit."
4. Lembo Stolba.

Types of Credit to Help Build Credit

There are three types of credit that can help you improve your credit score, provided you make regular payments on time.

- Single-payment/service credit: services paid for monthly, generally without interest (examples include utility and phone bills)
- Installment credit: loan is paid back in a series of scheduled payments, generally with interest (examples include student and car loans)
- Revolving credit: you can make many purchases as long as the total outstanding balance does not exceed your credit limit, and charges are repaid at regular intervals at a minimum required amount, generally with interest if not paid in full each billing cycle (examples include a credit card and a line of credit)[5]

Advantages and Disadvantages of Using Credit

Advantages

- You are able to make payments over time on large purchases
- You can buy items immediately without cash
- You can build credit
- It can be useful in case of emergency

Disadvantages

- Interest may increase the cost of your purchases
- You may incur fees
- You may encounter financial difficulty if you mismanage your credit use[6]
- Applying for too many sources of credit (such as multiple credit cards) in a short period of time can negatively impact your credit score[7]

Borrowing Responsibly

Before you borrow money, consider the following:

- Borrow only what you can reasonably repay
- Read the credit contract thoroughly
- Make sure you can afford to make payments on time

Tips for managing your debt:

- If possible, pay your credit card balance in full each billing cycle to avoid accruing and paying interest
- Report lost or stolen cards immediately
- Follow the 20-10 rule to the extent you can
    - Try not to borrow more than 20% of your annual net income (income after taxes)
    - Mortgage (housing) payments should be excluded, but all other debt is included
    - Your monthly payments should not exceed 10% of your monthly net income
    - If you are borrowing student loans, you should apply the 20-10 rule to your estimated potential earnings when you are in repayment (after college), not your current income[8]

Need help? Looking for more resources? We recommend these resources.

- If you already have a loan or credit card in your name, contact the lender if you have questions or concerns
- If you have an account at a financial institution (checking, savings, investments, loan, etc.), they may offer free educational materials on their website or in your online account
- Your financial aid counselor can answer questions about student loans
- Request a free copy of your credit report
- Experian, one of the nationwide credit reporting agencies, offers more information about building credit

5. Lembo Stolba; "Lessons: College," Practical Money Skills, accessed January 30, 2024, https://www.practicalmoneyskills.com/en/teach/lesson_plans/college.html.
6. "Lessons: College."
7. Lembo Stolba, "How to Build Credit."
8. "Lessons: College," Practical Money Skills.