

# Understanding Credit and Credit Scores as a Young Adult

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Emerging adults (18- to 25-year-olds) are in a constant struggle to gain their independence from parents or guardians. They exist in this awkward phase of life in between “no longer a teenager” and “not quite an adult.” Most of the time, they try to establish their independence by making significant financial decisions. Some may decide that college is the right choice for them, others may choose to get their own apartment or house, and still others will choose to get their own credit card. Each of these choices can help emerging adults feel more autonomous, but they can also have a harmful influence on their finances, especially a credit score.

Talking about credit and credit scores can be both boring and overwhelming for young adults. However, it is important to know what credit is and how it impacts your future. Do not put off learning about credit scores until you are ready to buy your first house or car. Being proactive can help you avoid future headaches and put you on a path toward being an independent adult. Below is a quick rundown of what credit is, how it's determined, how you can find out your credit score, and ways to improve your score.

## What is credit?

Your credit score is an indicator of the likelihood that you will be able to repay a loan according to the original loan terms (i.e. whether you pay your full monthly payment on time). The higher your credit score, the more likely you are to qualify for the most desirable loan rates. Credit scores are often used to determine credit worthiness for home mortgages, vehicle loans, and credit card applications.

## How is my credit determined?

Your credit score is based on your credit history and can range from 300 to 850. Credit score may be a deciding factor as to whether a lender qualifies you for a loan. Furthermore, your credit score can directly impact the price you pay for the loan, which could include a higher

interest rate, larger down payment, mortgage insurance, and additional fees.

You may have no credit history and not even realize it. Many people think they have credit, and when it is time to buy a house or car, they find out they have no credit score at all. Most apartment rental companies will check your credit score to determine whether you are eligible to rent an apartment. If you have poor credit or no credit, it may be more difficult to rent an apartment or qualify for a loan. Ultimately, credit scores have a big impact on purchasing power and your ability to provide for yourself. If you check your credit report annually, pay your bills on time, and reduce the amount of debt you owe, you can be on your way out of your parents' house in no time.

## How do I know what my credit score is?

If you have never checked your credit, that is the first step in the process of building and maintaining a good credit score. How are you supposed to know where to go, if you don't know where you are beginning?

Your credit history, or credit report, is compiled by a credit reporting agency. Experian, TransUnion, and Equifax are the three major credit reporting agencies.



Your credit report contains information about your payment history to creditors and the amount of credit you have available.

Credit reporting agencies acquire information for your credit report from retail store credit accounts, credit card companies, mortgage and finance companies, utility accounts, landlords, cell phone companies, and collection agencies. Lenders review this information to determine whether and how you have repaid loans in the past. If you are like most emerging adults, your student loans will probably be the portion of your debt that affects your credit score the most.

Most information will remain on your credit report for seven years, therefore it is important you check your credit report regularly to be certain there are no errors. You are entitled to one free credit report per year from each of the three main credit reporting agencies. Instead of requesting a report from each agency at the same time, order one at a time, spread out over the course of 12 months. If you time it right, you could request a free credit report every four months. There are several ways to obtain a free credit report. Be careful about responding to ads on television and the internet. You can receive a free copy of your credit report online at [www.annualcreditreport.com](http://www.annualcreditreport.com) or by phone at 1-877-322-8228.

## How can I improve my score?

If you are denied credit because of poor credit history or a low credit score, there are things you can do to rebuild your credit worthiness, including paying your bills on time and reducing your debt load. To build a good credit history, be certain you make at least the minimum payments on all of your debts. You want to pay all of your bills on time every month, including credit cards, utilities, car payments, and rent payments. Double check your credit report to ensure that these payments are being reported accurately.

Remember to be proactive and learn what your current score is, how much debt you owe, and what things you are wanting to purchase in the future that will be affected by your credit. Being well-informed, especially about your own financial standing, is the best way to be independent from your parents or guardian. If you need more information about credit and credit scores, visit <https://www.usa.gov/credit-reports>.