



Navigating the Early Days of Credit

Starting out at university or college is a big step into adulthood. You can test the waters of independent living (even if mom and dad are helping out with packages of cookies from home and financial support), you have the opportunity to explore your interests – and people keep offering you money! Or maybe not.

Credit is available to students at unprecedented levels as lenders compete for the loyalty of future high earners and interest charges today. With education and living costs on the rise, a student loan or a credit card can look like a great way to do today what you can't wait to do tomorrow. Some students see it that way and rack up tens of thousands of dollars of debt before they even embark on their career. Others avoid debt at all costs, scrimping on food and avoiding entertainment, but also losing out on the opportunity to build a good credit history early in life.

Can you get through your student years and use credit wisely without selling your future? The answer is yes – with some careful planning.

First, know that having access to credit and carrying debt are neither good nor bad. Like a car, it's a tool that takes you places, if you know how to use it. Here then, are some simple rules for operating your new credit account.

1. Be clear on the purpose of having this credit, and stick to your intentions. If it's a credit card that you plan to use for booking a flight home at Christmas, keep it out of sight when it's time to order pizza. In fact, while owning a credit card is not a bad thing, you can save yourself a great deal of grief by paying for as much as possible with cash. That way, your expenses for "immediate fun" are immediately dealt with. You are better off to use the credit card for planned purchases that will enrich you over the longer term, whether it's a laptop or a wardrobe for a job interview.
2. Have a plan to pay back any debts you incur, and stay out of the trap of "revolving debt". Make it a rule never to use more than 30% of the credit available to you, and pay off as much as you can each month. Credit bureaus like to see that you pay your debts quickly and in full. This builds strong habits for credit management and a clean and strong credit report.

If you already have debt, then start today to organize the repayment of them. It is okay to pay some interest and to have debt. It's not okay to lose sleep over it or to start your working life so deep in debt that you have no way out because you didn't have an exit plan from the beginning.

3. Always consider your “return on investment”. Investing in your education almost always gives you a good return on the time and the money you spend to obtain it – provided you are in a field that feeds your passions and that you can see continuing through to your working years. But spending many years and thousands of dollars to become a reluctant dentist when you spend all your spare time on the guitar may not be the investment your parents think it is. Likewise, spending a thousand dollars to decorate your room is unlikely to give you a good return on investment unless you are such a good decorator that you can sell photos and an article to a design magazine. If that’s the case, consider design school and put your room in your portfolio.

The bottom line is, digging into your student loan money and reaching for your plastic is just the same as reaching for your wallet. You are going to pay eventually for the value of what you receive right now. If you cannot afford the purchase now, what plans are you putting in place to cover the expense in the future? Why do you want it now? Can it wait?

Use the time you are in post-secondary education to show the world that you are excellent at handling money. And like magic, you will be rewarded with more opportunities and responsibilities as you join the working world.

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