How your age affects your credit

Every decade presents new credit challenges -- here's how to stay on top of them

By Dawn Papandrea

When it comes to having good credit, people have different goals at various stages of their lives. For young people, it's about getting their credit profile in good shape so they can one day buy their dream home. Older people may be more concerned with paying down debt to retire comfortably. Whatever the stage of your financial life, see how these age-specific credit tips can help you manage your money.

Getting started...

Thanks to the Credit CARD Act of 2009, the youngest cardholders are getting older. That's because those under 21 must now show proof of income or have an adult co-signer in order to have a credit card in their name. Still, that doesn't mean young people can't get credit, says Maxine Sweet, vice president of public education of Experian, a credit services company. "A lot of credit card companies are interested in the younger market. They are going to be growing in purchasing power, and develop loyalty and stay with creditors for the long term."

While the legislation is aimed at helping young people avoid getting into more debt than they can manage, it also took away an opportunity for those young people to start creating their credit history, says Sweet. That's why it's more important than ever to start off on the right credit foot (that means paying on time, all the time!), even if that means opening a joint account with a parent until your 21st birthday.

In your 20s ...

Think of your early adult years as the time when you have to prove yourself. "Older consumers definitely have better credit scores," says Ken Lin, CEO of CreditKarma, a consumer website that allows consumers to track their creditworthiness. It has nothing to do with discrimination, though, he says. It's simply because the older you get, the deeper your credit history. The longer you have handled credit wisely, the more the credit scoring formulas reward you. The key is to start establishing credit as soon as you can and be smart from day one. Here's how:

Know the deal. The best tip for establishing good credit is to just be aware of where you stand financially, says Christine Hassler, a Gen Y author and partner with American Express' The Quarterlife Project, which aims to empower 20-somethings with resources to take control of their finances. "If young people checked their credit card balance as much as they check their Facebook status, they'd be in good shape," she says. More important, she says, is to school yourself on credit terminology, and take advantage of tech tools to help you keep track of your financial life.

*Pick cards with staying power. "*Credit cards are the backbone of establishing credit history and credit scores early," says Lin. When you choose a credit card, get one you can have for the next 20 years. For starters, try not to choose one with an annual fee, he says.

Don't stop at one. "Having one card is not going to be enough for getting the best credit scores," says Sweet. As soon as you get stable, open some additional accounts, she says. And, get your first installment loan, such as a car loan. "Additional accounts might decrease credit scores in the short term, but if you manage them well, that will lower your utilization." In other words, as your available credit grows, and you keep balances low, it indicates that you can manage credit responsibly -- a big bonus for your credit score.
"Having more accounts and better utilization over a longer period of time will position you to be ready to buy a house," says Sweet.

In your 30s and 40s ...

"The whole point of having a good credit score is to save money on that mortgage," says Lin. In other words, everything you've been working toward financially is in preparation for making that American Dream purchase, namely, qualifying for a home loan at a good rate.
If you need to improve your credit scores, give yourself about six months, says Sweet. Here's what you can do during that time...
Don't open any new accounts. "Recent inquiries can drop your score," says Sweet. That means steering clear of store cards with special offers.

Make a dent in your debt. "Paying down balances will get an immediate score improvement," says Sweet. But be wary of making too many big moves right before your purchase (such as opening or closing accounts or moving money around), she warns. You want to demonstrate stability in the three to six months before your purchase -- creditors want to be able to know where you're headed.

Pull your credit report, and fix any errors. If you find anything wrong, don't delay getting it corrected. "Doing it online is, by far, the best," says Sweet. "We allow the creditors 30 days to respond, but many times, it can be done within a few days."

Also good to know: If it's just a routine dispute that you're sure the creditor will fix without a struggle, then go through the credit bureau rather than contacting the creditor directly, says Sweet. "It forces the lenders to update the information to all of the credit bureaus in all the systems." Translation? Less work for you!

In your 50s and beyond ...

The ideal scenario is that by the time you get into midlife, you should be in the home you always wanted and able to put all of your focus on saving for your golden years. "Every consumer should aim to live debt free," says Sweet. And while that is true at all stages of life, it's more imperative the closer you get to retirement age.

Also important:

Don't get lax. "One of the things that happens is that people don't open as many accounts or use their credit as much, so they don't stay engaged," says Sweet. Why does it matter? Because they aren't checking up on their credit profiles as often, older people are more vulnerable to fraud. Sweet suggests purchasing an account monitoring service for peace of mind.

Wean yourself off credit. "After that mortgage is behind you, living on a cash lifestyle is the way to go," says Lin. "Once you get past major purchases, you shouldn't be looking to finance through credit."

What people of all ages need to remember, says Sweet, is that life is not about your credit score. "It's about making wise financial decisions." And having financial wisdom doesn't necessarily have anything to do with age.