It’s never too early to get on good financial footing, and adopting smart borrowing behaviors can be especially important to students as they enter medical school and begin taking on debt that will take many years to repay. A veteran of the student-loan industry offers tips for setting yourself on a favorable credit course, even if you have already had some missteps.

Why your credit score matters

For starters, it’s essential to understand what a credit score is: a numerical calculation of how likely you are to repay debt. It takes into account several factors, including whether you make credit card and loan payments on time, how much you owe and how many lines of credit you have open, as well as your credit mix—the various types of credit you use.

Most lenders use the FICO credit score, which runs from a low of 300 to a high of 850. Generally, a score of 700 or better is considered good; 750 or better is excellent.

It’s also important to note that the federal agencies for the most part do not look at credit scores when evaluating eligibility for student loans. But private lenders certainly do, and if you would like to one day take advantage of the benefits of private student loans—including, potentially, lower interest rates and greater repayment flexibility—as well as competitive rates on car loans and mortgages, you will need to have good credit. Even some employers check credit scores.

Steps to take early on
Alex Macielak, who manages business development and partnerships for Laurel Road, the AMA’s preferred provider of student-loan refinancing, lays out several ways you can make sure you are working toward a good score, even if you have little time to devote to your finances.

**Get a copy of your credit report.** “The first step in optimizing your credit is knowing what your credit score is,” he said. “You can check your score at no cost once a year at freecreditreport.com, which will also tell you the factors contributing to it. Just from that, you should get feedback on what you could be doing to improve your score.”

**Stay well short of your borrowing limits.** “Everybody knows the most important thing is making your payments on time, but lots of people are unaware that the credit bureaus want to see a utilization level of 30% or less, even if you’re paying off your card every month,” Macielak explained. “One really easy step you can take if you’re over that amount is to ask your credit card company to extend your line of credit so you’re then using 30% or less each month. Credit card companies typically are more than happy to do that.”

**Keep your old credit card.** “The longer your accounts have been open, the more favorably they will reflect on your credit report,” Macielak said. “So if you have a credit card that you got a while ago—and maybe you don’t use it anymore because it doesn’t have great benefits or great terms—if it doesn’t have any fees associated with it, it’s still in your benefit to keep it open. Maybe put one thing on it per year.”

**Build up savings.** “If you ever run into an unforeseen financial situation, having savings will enable you to continue making loan payments and not fall into delinquency or default, which would drag down your credit score,” he said.

**Think long term.** “Every credit event, even bankruptcy, eventually drops off your history,” Macielak noted. “So even if you haven’t gotten off to the best start, there’s always opportunity to improve your score. Nothing is forever.”

Learn more from the AMA about managing medical student loans.

AMA individual member benefits, including those from Laurel Road, can help you find savings to help organize personal finances and managed debt.