What those in their 20s should know about credit

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If I could relive my 20s again, there are a few things I would do differently. First, I would have called my mom before getting that tattoo. Second, I would have driven right past the animal shelter. And third, I would have paid a lot more attention to my credit. Lucky for you, I learned those lessons the hard way so you don't have to.

So, after you get off the phone with your mom and finish searching for dog-friendly apartments, read this list of 20 things every 20-something should know about credit.

1. Credit scores range anywhere from 300 to 850.

Your credit score is an indicator of how much of a credit risk you are to issuers. The higher the credit score, the better.

2. You have three credit scores.

There are three major credit bureaus: Equifax, Experian and TransUnion. Each one maintains a separate FICO score for each consumer in its database. As a result, you have three separate scores and three separate credit reports, which leads me to the next fact:

3. Credit reports are not the same things as credit scores.

Your credit score, also called a FICO score, is calculated off the information on your credit report. Your report shows your history of using credit, including every open and closed account you have, your payment history, credit limits and balance owed.

4. Having good credit isn't just about getting credit cards and loans.

A healthy credit history can help you secure financing and save you thousands on interest rates, but it can also lower your insurance premiums, help you rent a place to live or waive certain deposit requirements.

5. You are entitled to a free credit report from each bureau once a year.

Under the Fair and Accurate Credit Transactions Act, you can get a free copy of your credit report once each year from each of the three major credit bureaus at annualcreditreport.com. However, these reports will not contain your FICO scores. You will have to sign up for services or pay a fee to access those.

6. Bad credit doesn't have to haunt you forever.

Your credit score is just a snapshot of your current situation; it will change as your history improves or worsens.

7. There are five factors that affect your credit scores.

FICO breaks down your credit history into five categories. The five elements are: payment history (35 percent of the total score), credit utilization (30 percent), length of credit history (15 percent), new credit (10 percent) and credit mix (10 percent).

8. There is no single trick to raising your credit score.

The best thing to do is request your credit scores and look at the "score factors." Those will tell you the top four reasons your scores aren't higher.

9. You do not need to have debt to have a credit score.

The scoring systems actually penalize you for having debt. You can pay your balance in full each month to grow your credit score without taking on any debt.

10. Your credit score will not drop if you pull your own reports or scores.

Checking your own credit reports and scores has no effect on your credit.

11. Making minimum payments is the worst way to pay off credit card debt.

For example, if you make minimum payments (say, 2.5 percent) on a card with a $2,500 balance and 18 percent APR, it could take you 204 months to pay off the debt and cost you $3,173 in interest. Yikes!

12. Making a payment that is less than the minimum doesn't count.

Paying less than the minimum counts as a missed payment, which will bring down your credit score, trigger a late fee and possibly raise your interest rate. If you can't make your minimum payments, call your credit card issuer ASAP.

13. You must use your credit card to build credit history.

Using your credit card should not be confused with keeping a running balance. A smart strategy is to use the card each month and pay the balance off in full.

14. Be wary of retail cards.

Retail credit cards are usually very easy to get, have low credit limits and very high interest rates. Sure, discounts at your favorite store can be tempting, but are you really saving money if you are more tempted to shop or you can't pay your bill in full?

15. Maxing out your credit cards damages your credit score.

Even if you don't exceed your credit limit, running up your bill to the maximum allowed will have a huge negative impact on your credit score. Some experts recommend keeping your balance under 30 percent utilization, but the safest thing to do is just pay your bill in full each month.

16. You can negotiate with your credit card issuer.

It is possible to negotiate the terms, interest rates and payments on credit balances. If you are faced with a large bill you can't pay, you can sometimes negotiate the total balance of the credit card debt owed. If you settle credit card debt, you will be required to pay the new total in full and you should expect your card to be closed and your credit reports to take a hit. Negotiating your credit card debt should be done only in an emergency.

17. There is a difference between good debt and bad debt.

Borrowing money at a low rate to purchase a home or car isn't bad debt; you need a home to live in and you probably need a car to get to work or school. Bad debt is expensive debt, including high interest credit card debt or student loans, especially if your post-graduation payments will push you close to the poverty line.

18. Employers can pull your credit reports.

The Fair Credit Reporting Act allows employers to pull your credit reports as part of employment screening. Also, once you have been hired, employers maintain the right to pull your reports at any time during your employment. While credit reports do nothing to determine your ability to perform job duties, they can shed light on personality traits, like responsibility.

19. Prepaid or secured credit cards won't fix your bad credit.

A secured credit card allows the user to make a deposit, or prepayment, equal to the credit limit. These cards are reported to the three major credit bureaus, but they do very little to help you build credit. These cards are best for people who are establishing credit for the very first time.

20. Having bad credit doesn't make you a bad person.

The good thing about making credit mistakes in your 20s is that you have plenty of time to fix them.