

How to

# BUILD CREDIT

Building credit can be tricky. If you don't have a credit history, it's hard to get a loan, a credit card or even an apartment. But how are you supposed to show a history of responsible repayment if no one will give you credit in the first place? Several tools can help you establish a credit history:



If your aim is to get a credit card, you could start with a secured credit card or co-signed card, or ask to be authorized user on another person's card.



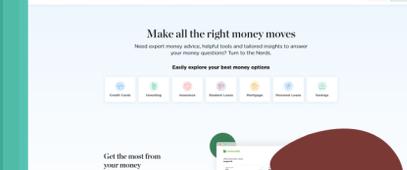
If you want to build credit without a credit card, you might try a credit-builder loan, secured loan or co-signed loan. There are also ways to use rent, phone and utility payments to build credit.

## Get a secured credit card

If you're building your credit score from scratch, you'll likely need to start with a secured credit card. A secured card is backed by a cash deposit you make upfront; the deposit amount is usually the same as your credit limit. You'll use the card like any other credit card: Buy things, make a payment on or before the due date, incur interest if you don't pay your balance in full. You'll receive your deposit back when you close the account.

NerdWallet regularly reviews and ranks the best secured credit card options.

Secured credit cards aren't meant to be used forever. The purpose of a secured card is to build your credit enough to qualify for an unsecured card — a card without a deposit and with better benefits. Choose a secured card with a low annual fee and make sure it reports to all three credit bureaus, Equifax, Experian and TransUnion.



## Get a credit-builder loan or a secured loan

A credit-builder loan is exactly what it sounds like — its sole purpose is to help people build credit.

Typically, the money you borrow is held by the lender in an account and not released to you until the loan is repaid. It's a forced savings program of sorts, and your payments are reported to credit bureaus. These loans are most often offered by credit unions or community banks; at least one lender offers them online.

Another option: If you have the money on deposit in a bank or credit union, see about a secured loan for credit-building. With these, the collateral is money in your account or certificate of deposit. The interest rate is typically a bit higher than the interest you're earning on the account, but it may be significantly lower than your other options.



## Use a co-signer

It's also possible to get a loan or an unsecured credit card using a co-signer. But be sure that you and the co-signer understand that the co-signer is on the hook for the full amount owed if you don't pay.



## Become an authorized user

A family member or significant other may be willing to add you as an authorized user on his or her card. Doing so adds that card's payment history to your credit files, so you'll want a primary user who has a long history of paying on time. In addition, being added as an authorized user can reduce the amount of time it takes to generate a FICO score.

You don't have to use — or even possess — the credit card at all in order to benefit from being an authorized user



Ask the primary cardholder to find out whether the card issuer reports authorized user activity to the credit bureaus. That activity generally is reported, but you'll want to make sure — otherwise, your credit-building efforts may be wasted.

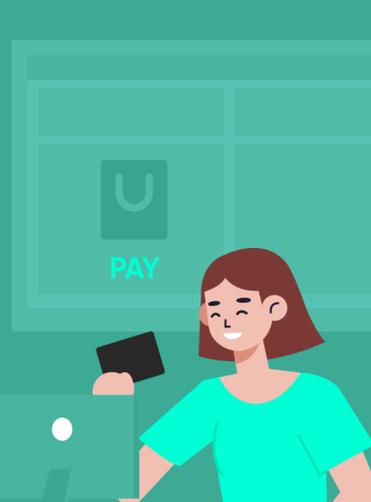
You should come to an agreement on whether and how you'll use the card before you're added as an authorized user, and be prepared to pay your share if that's the deal you strike.



## Get credit for the bills you pay

Rent-reporting services such as Rental Karma and LevelCredit take a bill you are already paying and put it on your credit report, helping to build a positive history of on-time payments. Not every credit score takes these payments into account, but some do, and that may be enough to get a loan or credit card that firmly establishes your credit history for all lenders.

Experian Boost offers a way to have your cell phone and utility bills reflected in your credit report with that credit bureau. Note that the effect is limited only to your credit report with Experian — and any credit scores calculated on it.



## Practice good credit habits

Building a good credit score takes time and a history of on-time payments.

To have a FICO score, you need at least one account that's been open six months or longer and at least one creditor reporting your activity to the credit bureaus in the past six months. A VantageScore, from FICO's biggest competitor, can be generated more quickly.

Practice these good credit habits to build your score and show that you're creditworthy:



### Make 100% of your payments on time

not only with credit accounts but also with other accounts, such as utility bills. Bills that go unpaid may be sold to a collection agency, which will seriously hurt your credit.



### If you use credit cards, keep your credit utilization low

utilization is the percentage of your credit limit you use. We recommend keeping your credit utilization below 30% on all cards.



### Avoid applying for multiple credit accounts close together

applications for credit can cause a small, temporary drop in your score. Recommends spacing applications by about six months.



### Keep credit card accounts open

Unless you have a compelling reason to close an account, consider keeping it open. Closing an account can hurt your credit utilization and reduce your average account age.

## Check your credit scores and reports

A credit report is a record of how you've used credit in the past. Your credit scores predict how you'll handle credit in the future, using the information in your credit reports. You'll want to monitor both to watch for errors and to see your credit-building efforts pay off.

Several personal finance websites, including NerdWallet, offer a free credit score. Look for a site that also offers free credit report information (NerdWallet does), as well as educational tools such as a credit score simulator.



Several credit card issuers print FICO scores on customers' monthly statements and allow online access as well. Some card issuers offer free scores to anyone, cardholder or not. Discover, for example, offers a free FICO score at CreditScorecard.com.

Request your annual credit reports and check each for errors and discrepancies. Dispute any errors you find that might be lowering your scores.

