



Creating a Credit Profile: How To Build Your Credit

You may not have ever thought about your credit before, but now that you're nearing or are over the age of 18 many other people may soon be looking at your credit (including potential landlords, prospective employers, and car loan companies). Credit checks have become a critical first step to getting a car loan and a credit card and many landlords and employers also check credit before renting an apartment or making a hiring decision. You likely have no credit history, so it will take some time to build a solid profile. Read on for details on how to get started on credit building.

Is having no credit as bad as having bad credit? It could be. While it is definitely easier to establish a good credit history starting from a clean slate than starting with a bad credit profile, people who look at your credit may be wary if you lack credit history. Past performance is used as a predictor for how responsibly you manage your debts, and with no history of making payments over time, creditors will not be willing to take a risk on you.

So how can I get started building credit? One of the best ways to start building credit if you have none is by applying for a secured card. The way it works is you give a bank a security deposit, usually around \$300. In exchange for your deposit, the bank will give you a line of credit, meaning, the card can only be used for the amount of money on deposit. Secured loans are another option and work in a similar way: The bank will basically loan you back the money you put down as a deposit and then you need to pay it back in installments over a period of time.

Another way to build credit is to identify a trusted adult who would be willing to add you as an authorized user to an already-existing account. You would be a secondary account holder and all activity on the card (including payments) will also be reflected in your credit report. There will be a comment that identifies you as an authorized secondary card holder, or secondary on a loan. The account holder doesn't even need to give you a card. It is a little risky because if the account goes bad it will damage your credit too.

Where can I find these secured cards and loans? Banks and credit unions are always changing their product offerings, so you should check out the websites of local banks and credit unions to see if they have secured cards and loans available. This link from Bankrate is helpful for finding secured cards: http://www.bankrate.com/funnel/credit-cards/credit-card-results.aspx?CCType=TYPE&CCProductId=507&ec_id=. Things to pay attention to include the amount of the security deposit and fees (you shouldn't have to pay an annual fee of more than \$40); and make sure the card will be reported to **all three** major credit reporting agencies (CRAs).

What credit-building strategy am I most interested in pursuing?

- Secured card
- Secured loan
- Becoming an authorized user on someone else's account

Tip Sheet Series for Youth in Foster Care

Know Your Credit History:
How to Interpret a Credit
Report

Creating a Credit Profile:
How to Build Your Credit

Identity Theft: How to
Resolve Errors on Your
Credit Report

Protect Yourself and Your
Stuff: What You Need to
Know About Insurance

Get Tax Savvy: What You
Need to Know About Taxes

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Do some research online and find three secured cards and/or loans that interest you and keep track of these important details to support your decision-making process:

Name of product	
Website and/or bank location	
Fees	Minimum Security Deposit
Report to all three CRAs	

Name of product	
Website and/or bank location	
Fees	Minimum Security Deposit
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Name of product	
Website and/or bank location	
Fees	Minimum Security Deposit
Report to all three CRAs	

Once I get my secured card or loan, how should I use it? The key thing to remember about using secured cards is that you never want to use more than 30 percent of your available credit. That means if your security deposit was \$300, you should never use more than \$90 of your available credit. Using more than 30 percent of your available credit can cancel out the score-boosting potential of secured cards and hurt your credit. One way to ensure you never exceed your 30 percent limit is to make one small regular purchase or bill payment on the card each month, and then pay it back in full before the monthly due date. For secured loans, you'll have one monthly installment payment, so you can set up an automatic payment from your bank account before the monthly due date. With no credit history, you probably won't qualify for a typical unsecured credit card, but you'll get there.

Calculate the 30% limit on your secured card.

Available credit on card: _____ x 0.30 = _____

This number is the highest balance you should ever have on your secured card.

How can I keep track of my credit score? The gold standard for credit scores is the FICO11 score, which is what the three credit reporting agencies and most lenders use to rate creditworthiness. You can get your FICO score at myfico.com, which charges a fee. There are currently three other websites where you can obtain your score for free: creditkarma.com, quizzle.com, and creditsesame.com. While these scores are not FICO scores, they are generally close enough and should give you a good sense of where you stand. Just be sure you're always comparing scores from the same source when you track your progress. About two months after you activate your secured card or loan, you can go to annualcreditreport.com to download your credit report for free and make sure your recently opened account is showing up. Learn more about reading your credit report in the *Know Your Credit History: How to Interpret a Credit Report* Tip Sheet.

Track your credit score progress

Score before secured product: _____

Date: _____

Score three months after activating secured product: _____

Date: _____

Score six months after activating secured product: _____

Date: _____

Next steps in building your credit history: It's hard to say for sure how long it will take for a creditor to consider you for an individual account. A lot will depend on the type of unsecured card you're applying for, but it should take about six to twelve months of clean history using your secured card or loan (remember the 30% rule!). It is also important to note that under federal law, if you're under 21, to be eligible for an unsecured card you have to show an independent ability to pay back the debt. You can provide information that you have the means to pay the debt by showing you have a source of regular income, usually a secure job where you have been employed for at least six months to a year. Creditors/lenders will evaluate your creditworthiness by considering a number of things that build a fuller profile: your annual income and other sources of assets and debts, such as whether you have school loans, if you rent and/or the value invested in a car that you own will go into the decision.

¹FICO stand for Fair Isaac Corporation, the company that invented the credit risk score.