

# Building Your Credit

## A Checklist for Anyone Trying to Establish Credit for the First Time

Good credit is key—but how do you establish it when your credit history is a blank slate?

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### What is a Credit Score and Why is it Important?

- Your credit score is a value based on information provided by credit agencies, which determines the potential risk involved in lending to you:**
  - Lenders use this numeric value to protect themselves from any potential losses that may be caused by those who might be high-risk borrowers.
  - A credit score can dictate whether you will qualify for a loan, what interest you will pay and how much money you can borrow.
  - Credit Scores are not just important when you want to borrow money. They can also affect your ability to purchase a mobile phone, get insurance, rent a home or secure a job.
  - The most common source for credit scores is called a FICO score. FICO stands for Fair Isaac Company; they are an organization that publishes credit scores. These scores are distributed to the three largest national credit agencies in the United States: TransUnion, Equifax and Experian. The score values can range from 300-850; the higher the score, the better. A high score means the less likely it is that the individual will become delinquent on the loan.
  - When a creditor pulls your scores from the three credit bureaus, the number that falls in the middle is the value that determines approval, interest rate and terms of the loan.

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### How do you Establish a Credit Score for the First Time?

- When you have no credit history**, creditors have no way of knowing whether or not you are a good candidate for credit. The following list describes some of the ways creditors determine whether or not they should approve your lending request(s):
  - Residence History:** How often do you move? Do you rent or own your home? Stable residence often suggests reliability; owning your own home may carry more weight than renting.
  - Bank Account:** Opening a checking account does not require a credit score; however, successfully managing the account without overdrawing it can be a consideration if you seek credit from your financial institution. Furthermore, bank account numbers are often required on credit applications.
  - Employment History:** Have you held a job, or bounced around from place to place? Your commitment to a job is a solid indicator of whether or not you will be committed to paying your loan.
  - Utilities in Your Name:** Having a monthly bill such as electric, gas, telephone, cable and water service in your name does not establish a credit score. However, when your bills are paid on-time, this is yet another positive factor for a first time borrower.

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### Retail Credit Cards

- If you have been denied credit at your financial institution**, you may need to consider opening a department store or fuel card. These cards are not ideal as they often have extremely high interest rates with low credit limits; however, when used properly, they can help develop your credit history.

The following are some important things to remember if you apply for a retail credit card:

- Find out if the retail creditor reports account activity to the credit bureaus. If the purpose of obtaining this card is to build your credit, you will want to make sure that your reliable payment history is being reported.
- Be disciplined! When you are just starting to build your credit, you do not want to damage it. Remember, credit is not free money; the purpose for opening a card is to make sure you have the credit you need from a vehicle or your first home.
- Use the card to make purchases and pay the balance in-full and on-time. After 3 months or so, you may want to try to apply for a Visa or MasterCard with a higher limit that can be used anywhere.
- Avoid multiple inquiries on your credit score. Don't apply for a stack of credit cards—hoping to get approved for one. Some creditors interpret numerous inquiries negatively.

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### Secured Credit

- If you have attempted the previous steps and still continue to be denied credit**, you may want to consider a secured credit card:

- With a secured credit card, your credit limit is based on the amount of the secured funds (for example, money in an account, a mortgage or vehicle).
- If you fail to make a payment, the lender can seize the asset that was used to secure the card in order to pay for the debt.
- As with a retail credit card, you will want to verify that the lender is reporting the payment activity to the credit bureaus.

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### Defend your Credit

**As you can see, credit is not easy to establish.** A high credit score reflects an investment of time and effort, which should be strongly protected. Here are some ways to make sure that your credit stays intact:

- Keep an eye on your bank and credit card statements. Always be aware of any suspicious transactions and report them to your financial institution within 60 days.
- Immediately report any lost or stolen cards to the proper companies.
- Don't loan your cards to other individuals or give out your password or pin number.
- Always pay your bills on time. Payment history can count for 35% of your credit score and chronic late payments can slash your score by 100 points.

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### Defend your Credit (Continued)

- Do not close cards when they are paid-off. Either secure them in a safe location, or use them periodically. Always make your payments on-time, as this positively impacts your credit score.
- Avoid balance transferring from card to card; this could harm your score.
- Do not agree to be a co-signer on a loan, unless absolutely necessary. This is one of the most dangerous ways to put your credit in jeopardy. If someone is unable to qualify for a loan without a co-signer, they are a high-risk borrower. Remember, if they do not make their payments on-time, your credit will be adversely impacted.
- Check your credit report annually. You are entitled to a free credit report from one of the three major credit agencies every year. If you see anything that looks out of place, immediately report the discrepancy to the agency.