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8 Ways to build a Great Credit Score

Establishing a good credit history has never been as important as it is today. It's not just that you'll need good credit to get decent rates when you're ready to buy a home or a car. **Your credit history can determine whether you get a good job, a decent apartment or reasonable rates on insurance.** One seemingly minor misstep -- a late payment, maxing out your credit cards, applying for too much credit at once -- can haunt you for years. **If you're just starting out, you have a once-in-a-lifetime opportunity to build a credit history the right way.** Here's what to do, and what to avoid.

Check your credit report

You'll first want to see what, if anything, lenders are saying about you. That kind of information is contained in your credit report at each of the three major bureaus: [Equifax](#), [Experian](#) and [Trans Union](#). Credit reports are used to create your credit score, the three-digit number lenders typically use to gauge your creditworthiness. Lenders also may look at the report itself, as may the landlords, employers and insurance companies who use credit to evaluate applicants.

Establish checking and savings accounts

Lenders see these accounts as signs of stability. Opening checking and savings account is also **one of the few things you can do as a minor** to start building a financial history. While you can't get a credit card in your own name until you're 18 and can be legally held to a contract, many banks have no problem letting you open an account. Many, but not all. If your bank balks, you need to either look around for another bank or consider opening a joint account with an adult.

Understand the basics of credit scoring

You need to know that the two most important factors in your score are:

- Whether you pay your bills on time.
- How much of your available credit you actually use.

It's essential that you pay all your bills on time, all the time. Set up automatic payments or reminder systems so that you're never, ever late. All it takes is a single missed payment to trash your credit score - and it can take seven years for the effects to completely disappear. You also don't want to max out any of your credit cards, or even get close. Keeping your credit use to less than 30% of your credit limits will help you get the best possible credit score. Finally, you don't need to carry a balance on a credit card to have a good credit score. Paying your bill off in full is the best way to keep your finances in shape and build your credit at the same time.

Apply for credit while you're a college student

It turns out that there's no easier time to get a card than while you're a college student, said Gerri Detweiler, author of "[The Ultimate Credit Handbook](#)." Look for a card with a low or nonexistent annual fee and low interest rates. For now, just get one: Opening a slew of credit accounts in a short period of time can make you look like a risky customer.

Apply for a secured credit card

If you can't get a regular credit card, apply for the secured version. These require you to deposit money with a lender; your credit limit is usually equal to the deposit. You'll want to screen your card issuer carefully. Some charge outrageous application or annual fees and punitively high interest rates. Your credit union, if you have one, is a good place to start looking for a secured card. You can also check [Bankrate.com's](http://Bankrate.com) list of secured credit card issuers.

Ideally, the card you pick would:

- Have no application fee and a low annual fee
- Convert to a regular, unsecured credit card after 12 to 18 months of on-time payments
- Be reported to all three credit bureaus - If it doesn't, the card won't help build your credit history.
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Get a finance company card

Gas companies and department stores that issue charge cards typically use finance companies, rather than major banks, to handle the transactions. These cards don't do as much for your credit score as a bank card (Visa, MasterCard, Discover, etc.), but they're usually easier to get.

Get an installment loan

To get the best credit score, you need a mix of different credit types including revolving accounts (credit cards, lines of credit) and installment accounts (auto loans, personal loans, mortgages). Once you've had and used plastic responsibly for a year or so, consider applying for a small installment loan from your credit union or bank. Keeping the duration short -- no more than a year or two -- will help you build credit while limiting the amount of interest you pay.

Use revolving accounts lightly but regularly

For a credit score to be generated, you have to have had credit for at least six months, with at least one of your accounts updated in the past six months. Using your cards regularly should ensure that your report is updated regularly. It also will keep the lender interested in you as a customer. If you get a credit card and never use it, the issuer could cancel the account.

Just remember the credit tips mentioned earlier:

- Don't charge more than 30% of the card's limit.
- Don't charge more than you can pay off in a month. As mentioned earlier, you don't have to pay interest on a credit card to get a good credit score, and it's a smart financial habit to pay off your credit cards in full each month.

Make sure you pay the bill, and all your other bills, on time.