



OUTSMARTING DEBT

How to build credit

Building a solid credit history is an important step in taking charge of your financial future.

The highlights:

- Your credit history is directly tied to your credit score which can help you get approved for loans and lines of credit.
- There are a few tools to help you start building credit, such as secured loans and credit cards or getting the help of a trusted co-signer.
- Making on-time payments and not using too much of your available credit are two key ways to help you maintain a positive credit history.

Not sure if you need to build credit? Here's why you do.

Credit can be a crucial part of our financial lives, yet approximately 45 million Americans could be considered “credit invisible,” meaning they don’t have a documented credit history.¹ Building a credit history could help you borrow money from lenders so you can [accomplish specific goals](#) like paying for college or buying a home or a car.

Your credit history is directly tied to your [credit score](#), which is a number ranging from 300 to 850 that can help tell lenders how well you manage your credit. Generally, a higher credit score could make it easier to borrow money and pay lower interest rates. Having a low or non-existent credit score typically means your loans are at higher interest rates, and that could mean paying hundreds of dollars more each month—money that could be put into an [emergency savings account](#).

And credit history impacts more than just borrowing money. It can also impact the premium you pay on your auto insurance, whether a landlord accepts your rental application, or even whether an employer chooses to hire you.

Podcast episode: Listen to [Smart borrowing habits with David Smith](#) from *Money and Mindset With Bright and Brian*.

To get a baseline for your current credit history, request a copy of your credit report from [AnnualCreditReport.com](#). (You can get a free copy once a year from each of the three major credit reporting agencies.) If you don’t have much activity on your report, these next tips can help you

establish a credit history.

4 ways to build credit with no credit history

1. Get a secured loan or credit card.

If you're ready to build your credit, a secured loan or credit card can help you start. Both require a small upfront deposit, which the lender uses as collateral in case you don't make your payments. Once you close the account or the loan term ends, you can get that collateral back—so long as you've been making timely payments and your account is in good standing.

Basically, by giving the lender money as collateral, it lowers some of the risk that they see from you not having any credit history.

2. Become an authorized user on someone else's account.

You can become an authorized user on an account if someone close to you (like a family member) adds you to their existing account. This option is most common with credit cards. For example, if they have a travel rewards credit card, they can add you as an authorized user, and you'll get the same card but with your own name on it. This card would still be tied to your family member's account, so just remember that if you decide to use it, you're really charging that purchase to someone else's account.

As long as you and that family member are responsible with the credit line and make payments on time, you can both build good credit histories together. Plus, it removes the barrier of you having to open an account in just your name.

3. Use a co-signer.

Getting a co-signer is another way you could try getting your first loan or card. Your co-signer would work alongside you to take out the loan or open the credit card and sign the paperwork with you. By doing this, your co-signer agrees to be legally responsible for paying the debt if you don't pay it as agreed.

Using a co-signer with good credit might get you access to better terms than you would otherwise be offered. But heads-up: If you don't make timely payments, both your and your co-signer's credit will be negatively affected. Make sure you and your co-signer understand that you're in it together and are responsible for your use of the loan.



What's a credit bureau?

There are three main credit bureaus: Experian, Equifax, and TransUnion. They collect your credit-related data, such as:

- The number of credit card accounts you have
- How often you pay on time
- What other types of debt you have

This information is used to create credit reports that lenders and others review to determine your creditworthiness.

4. Add alternative data to your credit history.

While rent, cellphone, and utility payments aren't usually reported to the main credit bureaus, your consistent on-time payments could be an opportunity to build your credit. Some landlords or companies may be able to report your payments to the credit bureaus if you ask them, and some third-party companies will allow you to link eligible bank or utility accounts to report activity as well. Once

your accounts are linked to these third-party services, they can evaluate your activity and find qualifying payments to report. There may be a cost associated with reporting your payments to the credit bureaus, so be prepared for that possibility.



The importance of credit reports

Did you know? Credit reports can impact:

1. Lease applications
2. Deposits for utilities
3. Background checks
4. Insurance rates²

Keep building and improving your credit.

Learning how to build credit and taking action to make progress is step one. It can take three to six months for your first credit score to be calculated, and it can take time to build your credit by demonstrating sound financial habits.

“The hardest part is the first part, where you’re identifying reality accurately and then taking steps to improve your situation,” says Bright Dickson, a positive psychology expert at Truist. “Once you get over the hard part, you start to see progress toward what you want. That breeds hope, which helps you take the next step toward your goals.”

To keep growing and improving your credit, be sure to avoid [common credit mistakes](#) and practice good habits. You can continue improving your credit score by:

- Making on-time payments every month on every account you have
- Using diverse types of credit, like a student loan, a credit card, and a car loan
- Limiting your requests for new credit, such as retail credit cards
- Taking care of delinquent accounts to settle balances
- Not using too much of your available credit

Once you get your credit history going, it can become easier over time to grow and maintain your credit score—as long as you keep your accounts in good standing.

Next step suggestions:

- Evaluate where your credit is today by reviewing your credit history and credit score. [Set a goal](#) for what score you’d like to hit in a year.
- If you’re thinking of applying for a credit card, try out the [credit card payoff calculator](#) to estimate how long it might take to pay off a credit card balance.
- Conduct a [financial check-in](#) to identify whether you’re on track with your goals before taking on any debt.

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What are credit inquiries? Everything you need to know

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Outsmarting debt

5 common credit mistakes you can easily avoid to boost your score

Chances are, we’ve all made at least one of these credit mistakes—and that’s OK. Here’s what to know for a stellar score.

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Take control of your finances.

Return to Money and Mindset

Disclosures ^

¹ [Background on: Insurance Scoring,](#)” Insurance Information Institute, accessed December 9, 2024.

² [Credit Scoring Alternatives for Those Without Credit,](#)” U.S. Government Accountability Office, January 5, 2022.

³ Refer to the [Account Overview Guides \(PDF\)](#) and the [Personal Deposit Accounts Fee Schedule \(PDF\)](#) for detailed information regarding each feature, benefit and/or fees listed for each product.

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Borrowers with Limited English Proficiency (LEP) needing information can use the following resources:

The Consumer Finance Protection Bureau (CFPB) also provides additional resources for homeowners seeking payment assistance in select languages at: <https://www.consumerfinance.gov/housing/housing-insecurity/help-for-homeowners/>

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