

Credit and Debt

What You Need to Know About Establishing Credit

If you are trying to establish credit for the first time, you're likely to find yourself in a Catch 22 situation: you need credit to establish a credit history, but you can't get credit without a credit history. While this may seem challenging, it's not impossible.

Open a bank account

Opening a savings and/or checking account is the first step in establishing a financial history. Follow the bank's rules, and be sure you don't overdraw your account. While bank accounts don't create a credit file, their very existence demonstrates that you have money and shows you can handle it responsibly.

Put your apartment and utilities in your name. Putting your apartment and utilities in your name allows you to establish a regular payment history under your own name and Social Security number. Recurring bills, such as rent, utilities, and car insurance payments, paid in a timely manner can indicate that you are a good credit risk.

Keep copies of the bills and your canceled checks. You might also ask your landlord, utility company, or insurance agent to write letters on your behalf stating that you have consistently paid your bills on time.

Apply for a charge card

Consider applying for a department store or gas credit card. These cards usually carry low credit lines and are typically easier to obtain. The interest rate may be high, but if you pay the entire balance each month, the rate won't matter.

Before opening one, ask if the lender reports repayment information to a recognized credit-reporting agency. Not all do. Think twice before going with one that doesn't, because you don't want your efforts to establish a credit rating to be wasted.

Consider a secured credit card

Another way to establish credit is through a secured credit card. With this method, you deposit a specific amount into a special account, and you receive a card with a credit limit that equals your deposit.

For example, if you deposit \$1,000, your credit limit will be \$1,000. In effect, you are borrowing against your own money and paying interest to do so. Although this is not a good financial deal, it's a viable way to establish credit.

Shop carefully for the right card

When you feel you have established a record of responsible payments, search for cards with low fees and interest rates. Be sure to read the fine print regarding terms and conditions and take note of the late payment penalties.

Beware of cards that offer low introductory interest rates and then increase significantly after the introductory period.

Once you have credit, protect it. Once you have a credit card, establish a good history by using it responsibly and making timely payments. Be sure to allow several business days for payments made by mail.

Also, protect your credit history by safeguarding your credit cards. Carry only the credit card you expect to use and keep others in a safe place. Maintain a list of account numbers and telephone numbers of the companies that issued your cards.

This way, if the cards are lost or stolen, you can notify the companies quickly. Finally, be sure to check your credit report at least once a year to verify its accuracy. You can do this through the Web sites of the three largest credit reporting agencies: Experian, Equifax, and Trans Union.

Treat credit wisely

Credit is an important financial tool. Used wisely, you may be able to make necessary or big-ticket purchases without incurring excessive interest-rate charges.