
How to Establish Credit

If you've never had credit in your own name, it can be difficult to get a car loan or credit card. Having no credit history can be as much of a problem as having a bad credit history. Students, other young people, and newly divorced or widowers often find themselves in this situation. It seems like a vicious circle: you can't get credit because you've never had credit, but you've never had credit because you can't get credit. What's a person to do?

Here are a few tips to help you establish credit in your own name.

- The best way to establish a credit history is to apply for a small loan or line of credit from your credit union or a credit card from a local department store. Before you get the credit card make sure they report to a credit bureau.
- Gas cards are relatively easy to get. Apply for one and use it to establish credit, but pay it off every month on time to show that you can pay your bills responsibly.
- If you can't get a small loan, gasoline or department store credit card on your own, try to find someone to co-sign for you. Again, make payments regularly and on time.
- Increase your chances of getting the loan you're applying for by coming up with a large down payment. If you don't have the cash, consider borrowing from a family member.
- If you don't have a checking account, open one. You have very little credibility with lenders if you don't have at least a checking account and preferably a savings account as well.
- Be sure not to overdraw your bank account. Bouncing checks sends a signal to potential lenders that you can't manage your finances and are therefore not a good credit risk.
- Know what lenders and credit card issuers look for when issuing credit. There are other factors that affect credit approval besides your payment history, such as how often you move and how often you change jobs. It also helps if you've had an apartment or utility in your own name. If you don't have a telephone number in your own name, you may find it more difficult to get credit.
- You may find it necessary to get a secured credit card. These cards require you to deposit money in an account to secure the loan or credit limit, and they often have fees or higher interest rates. If you default on your payments, the lender takes the money from your account. After several months of making payments on time you may be able to obtain a regular credit card. Remember to make sure the company reports to a credit bureau before applying for a secured card, or the card will not help you establish a credit history.
- Being rejected for credit can also look bad. Apply only to cards whose requirements you are likely to meet. Read the small print and call the company to make sure your income and other factors qualify you for the card. Just because you get an offer in the mail does not automatically mean you will qualify.

With careful planning and a little knowledge of how lenders issue credit, you can establish a credit history fairly painlessly. There are many businesses waiting in line to take advantage of you by charging exorbitant fees or interest rates, so be careful out there.