How To Build Credit In Your 20s; Follow These 7 Crucial Steps

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The decade after your teens can be the most exciting years of your life. And that's especially true if you know how to build credit in your 20s.

 Whether you are trying to establish a credit history for the first time or looking to raise your credit score in your 20s so you can [**buy a car or home**](https://www.investors.com/etfs-and-funds/personal-finance/steps-to-buy-a-house-first-time-homebuyer/), you shouldn't have to put off your dreams just because you don't possess a long credit history.

So how do you build credit in your 20s?

**How To Build Credit In Your 20s Step 1: Forge Responsibility**

There's no one way to build your financial reputation. But a number of strategies can work, such as:

* **Opening a checking account.** A checking account provides a record of your money habits. If you already have a deposit account, the bank holding it is more likely to approve you for a credit card or loan.
* **Putting some bills in your name.** If you're applying for credit, a history of paying bills can be advantageous. List monthly utility or telephone bills in your name to show you're the payer of record.
* **Putting your name on the lease.** If you're renting, put your name on the rental agreement as with other bills. Pay the rent every month like clockwork.
* **Paying all bills on time.** Bills come with a due date and minimum payments due printed on them. Pay every bill on time. Prompt payment is the single best method for building good credit, bar none. Pay [at least the minimum.](https://www.investors.com/etfs-and-funds/personal-finance/debt-relief-strategies/)
* **Opening a savings account.** Like a checking account, a savings account shows you are a responsible steward of money. And it also boosts your chances of being approved for a credit card or loan.

**How To Build Credit Step 2: Show Stability**

If you're looking for how to build credit, lenders want to see stability in your life. Some ways you might show you can be counted on include:

* **Getting a steady job.** When you apply for a credit card or loan, lenders look for stable employment. Why? The simplest of reasons: A steady job increases the likelihood that you'll have money to pay them back.
* **Establishing a permanent residence.** Lenders also look at how long you've lived in a given place. And moving every few months can hurt your chances of being approved for a credit card or loan. Why? Because lenders don't want you to skip town tomorrow.

If you need a new job or apartment, weigh the pros and cons first. Yes, it's common to switch your employment and move around in your 20s. Sometimes there are advantages to changing jobs, such as more money. And moving into a new place for more space is liberating.

Seeking steady employment and a long-term address doesn't rule out these life changes at your age. But given that lenders look for stability when they assess you for credit cards and loans, weigh the potential impact of a new job or new digs on your desire to build good credit.

**How To Build Credit Step 3: Evaluate Options**

Make establishing some credit history in your young adulthood a priority. Paradoxical as it sounds, if you don't have debt now, you need a judicious amount to build credit fully. Shop around for credit options so you know what's available. Here are the steps forward:

* **Review the fine print**. Credit cards and loans provide information about the interest rates, fees, credit limits, and other terms to potential customers. And you need to [read the fine print carefully](https://www.investors.com/etfs-and-funds/personal-finance/credit-card-debt-how-to-tame-it-how-to-avoid-carrying-a-costly-balance/) on all credit and loan offers to make sure you are getting the best possible deal. Compare before making any decisions.
* **Comparison shop for the lowest interest rates**. Look for the lowest APR possible. The APR, or annual percentage rate, is the yearly cost to borrow. And the lower the APR is, the less the minimum monthly payment. Many credit cards offer an introductory low or zero APR. If a zero percent interest rate offer is introductory, when do interest rates kick in, and how much will they be? Look closely if interest rates are fixed or can continually rise.
* **Compare the fees**. Many credit cards charge annual fees. Comparison shop on these as well. If they don't have fees for an introductory period, when do they start?
* **Compare the credit limits**. Know what your credit limit is. Many cards start with a low limit and raise it once you've dutifully paid the bill on time.

**How To Build Credit Step 4: Expand Your Credit Circle**

Now that you've researched credit options, it's time to make your move. When you know which credit offers are out there, you need to get approved. Steps to follow include:

* **Know the best prospective lenders**. Banks holding your checking and saving account are good places to start for loans. And lenders will often give favorable credit terms if you already have another account with them. Alumni associations or credit unions affiliated with your workplace can also offer excellent terms on credit cards and loans because you have long relationships with the affiliated school or organization.
* **Apply for a credit card**. Once you've found the best terms, apply for a credit card. You want to start with one or two, maximum. And know applying for a ton of cards hurts your credit history because it implies to lenders that you really need the money.

**How To Build Credit Step 5: What to Do If You're Turned Down**

Don't lose hope if you're turned down for your initial credit card application. Win approval in the future with a plan. These steps will help:

* **Apply for a retail card**. When you shop in a store, you can get the store's credit card. Retail cards are often easier to get. Be careful with these, though, since the interest rates can be very high. And use them just for one or two purchases. Pay them off quickly to avoid the high APRs.
* **Apply for a secured credit card**. If you've been turned down for a credit card, banks will often approve a secured credit card. With a secured card, you must have money in an account and can only borrow up to that amount. When you utilize a secured credit card, you are using your own money, not the lender's. And these cards are easier to get because the lender can take your money it's holding if you don't pay the bill.

**How To Build Credit Step 6: Managing Credit**

Once you've got debt, manage it responsibly. And to maximize how to build credit in your 20s, you need to know your credit history, your [**credit score**](https://www.investors.com/etfs-and-funds/personal-finance/what-is-a-good-credit-score/), and how to manage it.

Credit scores measure how likely you are to pay money you borrowed back, based on how you've handled credit and debt in the past.

Lenders and other companies report your financial behavior, such as when you paid bills and whether you've applied for a credit card. A credit score is compiled from these data. The most common, a [**FICO score**](https://www.myfico.com/credit-education/credit-scores), uses the following scoring system, ranging between 300 and 850:

* 800 and above — Excellent
* 740-799 — Very good
* 670-739 — Good
* 580-669 — Fair
* Below 580 — Poor

The "good" category is near or slightly higher than the average American credit rating. Most lenders will approve loans and credit cards for applicants whose credit scores are good or above. And if it's below that, though, you may be turned down.

Plus, if your credit score is high, you can get lower interest rates and better terms.

**How To Build Credit In Your 20s Step 7: Monitor Your Credit Score**

Credit scores are calculated by assessing specific categories. And each category is weighted within the overall score. [**Payment history, for example, accounts for 35%**](https://www.myfico.com/credit-education/whats-in-your-credit-score) of your score. The amounts you owe make up 30% of your credit score. Your length of credit history accounts for 15%. The mix of credit — retailers, credit card companies, mortgage, and so on — is worth 10%. And when you apply for new credit, that also accounts for 10%.

How do you find out your credit score? A free credit report once a year is available for everyone. And you can obtain yours by visiting [**www.annualcreditreport.com**](http://www.annualcreditreport.com/).

The credit report will let you know how each category affected your score. And once you know, you can take steps to keep good ratings in categories where you're doing well and to work on areas that need improvement.

Building credit is a key task of your 20s. But by taking the right steps, you'll face the future armed with healthy credit.