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How to Build Credit

Building credit is a key step toward financial health and independence. Get started as an authorized user, try a rent reporting service or apply for a credit-builder loan.



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Building credit can be tricky. If you don't have credit history, or you have a [thin credit file](#), it can be hard to get a loan, a credit card or even rent an apartment. But how are you supposed to show a history of responsible repayment if no one will give you credit in the first place?

Here's a look at credit-building tools, and how to use them to earn a [good credit score](#).

How to build credit with a credit card

A credit card can be a great tool to help you build credit. When used responsibly, you can make purchases, pay the balance in full and avoid interest, all while building a history of on-time payments that looks great to potential lenders.

However, there are downsides to opening a credit card. There is a risk of accumulating debt that's challenging to pay off each month, leading to interest payments. Missing a payment will also harm your score. For example, a [late payment](#) by more than 30 days will stay on your credit report for seven years.

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Try a secured credit card

If you want to avoid the potential pitfalls of a traditional credit card, consider a secured card. A secured card is backed by a cash deposit you make upfront, and the minimum and maximum amount you can deposit varies by card — although many cards require a minimum deposit of \$200. The deposit amount is usually the same as your credit limit.

A secured credit card works like any other credit card: Buy things, make a payment on or before the due date and incur interest if you don't pay your balance in full. You'll receive your deposit back when you close the account.

Secured credit cards aren't meant to be used forever. The purpose of a secured card is to build your credit enough to qualify for an unsecured card — a card without a deposit and with better benefits.

Choose a secured card with a low annual fee and make sure it reports payment data to all [three credit bureaus](#): Equifax, Experian and TransUnion. Your credit score is built using information collected in your credit reports, so cards that report to all three bureaus allow you to build a more comprehensive credit history.

» **Ready to get started?** Shop the [best secured credit cards](#)

How to build credit without a credit card

You don't necessarily need a credit card to build credit. There are several tools that can help you establish a [credit history](#).

Get a credit-builder loan

The purpose of a [credit-builder loan](#) is to help people build credit, but it also helps build savings at the same time.

Typically, the money you borrow is held by the lender in an account and not released to you until the loan is repaid. Your payments are reported to credit bureaus, which establish a history of paying on time. These loans are most often offered by credit unions or community banks. You can also get them through online lenders.

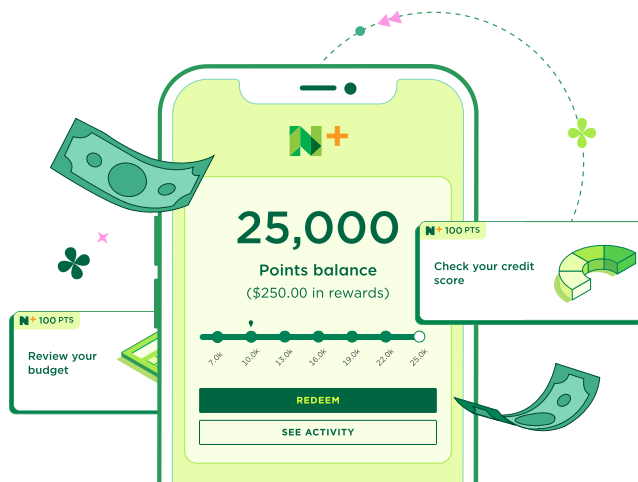
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Use a co-signer

It's also possible to get a loan or an unsecured credit card using a co-signer. But be sure that you and the co-signer understand that the co-signer is on the hook for the full amount owed if you don't pay.

[↑ Back to top](#)

Become an authorized user

An authorized user is someone who is added to a primary cardholder's credit card account without being responsible for the balance each month. With their name now attached to the credit card account, the authorized user benefits from the cardholder's good credit, on-time payment history and low credit utilization when reported to the credit bureaus.

Both parties should come to an agreement on whether and how authorized users will be permitted to use the card before they're added. Authorized users don't have to use — or even possess — the credit card at all to benefit from the arrangement.

Authorized users will typically see the primary cardholder's credit card account added to their credit reports after a few months. Not all credit card companies report authorized user accounts to the credit bureaus, so it's up to the primary cardholder to find out whether their card does, so that the credit-building efforts won't go to waste.

The goal of becoming an authorized user is to reduce the amount of time it takes to generate a [FICO score](#). There are other benefits, too, such as establishing a history of on-time payments, reducing your credit utilization ratio or extending the length of your credit history. Authorized user status can be especially useful for a young person who is just starting to build credit.

» **LEARN:** [What affects your credit score?](#)

[↑ Back to top](#)

Get credit for the bills you pay

[Rent-reporting services](#) take a bill you are already paying and put it on your credit report, helping to build a positive history of on-time payments. Not every credit score takes these payments into account, but some do, and that may be enough to get a loan or credit card that firmly establishes your credit history for all lenders.

Some rent reporting services are provided by landlords or property managers and renters can opt in, while other services come at a cost to the renter.

You can get credit for other kinds of bills, too. For example, [Experian Boost](#) offers a way to have your cell phone and utility bills reflected in your credit report with that credit bureau. Note that the effect is limited only to your credit report with Experian — and any credit scores calculated using Experian credit report data.

[↑ Back to top](#)

How should you build credit?

Secured credit cards and credit-builder loans both can help you establish credit. Which is better? It depends on your goals.

Are you 21 or older? (required)

☐ Yes

☐ No

Practice good credit habits

Try to make your payments on time, and pay at least the minimum if you can.

Paying credit card or loan payments on time, every time, is the most important thing you can do to help build your score. If you are able to pay more than the minimum, that is also helpful for your score.

If you use credit cards, keep your credit utilization low.

[Credit utilization](#) is the percentage of your credit limit you use. We recommend keeping your credit utilization below 30% on all cards when possible. The lower your utilization, the better it is for your score.

Avoid applying for multiple credit accounts close together.

Credit applications can cause a small, temporary drop in your score. However, multiple applications during a short period of time can cause significant damage. NerdWallet recommends spacing applications by about six months if you can, and researching the [best credit card](#) for your needs before you apply. Note that multiple applications for auto loans or mortgages within a short span of time will be grouped into one as "[rate shopping](#)."

Keep credit card accounts open.

Unless you have a compelling reason to close an account, like a high annual fee or poor customer service, consider keeping it open. You can also explore downgrading it or

transferring your credit limit to another card. Closing an account can hurt your credit utilization and reduce your average account age.

[↑ Back to top](#)

Check your credit scores and reports

There are two barometers you should regularly check to keep your credit building journey on track:

Credit reports

A credit report is a record of how you've used credit in the past.

You have three credit reports, one from each major credit bureau. Your credit report contains your personal information — your name, addresses, phone numbers — a list of all your accounts and their balances, credit inquiries made by lenders and negative information, including missed payments, bankruptcies.

Request your credit reports and check each for errors and discrepancies. You can check your reports for free weekly by [using AnnualCreditReport.com](#). Dispute any credit report errors you find that might be lowering your scores.

Get your credit reports in Spanish



Credit scores

Your credit scores predict how you'll handle credit in the future, using the information in your credit reports.

Your credit scores might differ slightly based on which company is calculating the score (FICO or VantageScore). Your credit score is not found on your credit reports, but you can look at your monthly bank statements or bank app to get a free score.

NerdWallet offers a [free credit score and a credit report](#) from TransUnion.

Frequently asked questions

What's the No. 1 way to build a good credit score?



How do you build credit fast?



About the authors



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Erin El Issa is a credit cards expert and studies writer at NerdWallet. Her work has been featured by USA Today, U.S. News and MarketWatch. [See full bio.](#)



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