Your Guide to Building Credit Young

What is Credit?

Credit is your ability to borrow money and pay it back later. Your credit score measures how reliable you are as a borrower. Higher scores mean better loan and credit card offers.

Your creditworthiness is represented by a **credit score**, which ranges from 300-850. A higher score shows that you are responsible with borrowed money and are less likely to miss payments.

Credit Score Ranges

- **300-579: Poor**
- **580-669: Fair**
- **670-730: Good**
- **740-799: Very Good**
- **800-850: Excellent**

Having a strong credit score can help you:

- Qualify for lower interest rates on loans
- Get approved for housing easier
- Receive better credit card offers
- Save money over time
- Improve your chances with employers and insurance companies.

Why Start Early?

Many young adults wait until they need a car loan, apartment, or credit card before thinking about credit. However, building credit early allows you to have significant advantages later in life.

Example Scenario: Imagine 2 college students graduate at the same time.

Student A: Built credit at 18 years old, used a credit card responsibly, and always paid on time.

Student B: Never built up their credit.

If they were both applying for an apartment under the same conditions. Student A may be approved more easily because they have an established credit history. Student B may need a co-signer or face additional requirements because lenders and landlords have very little information regarding their financial status. Building credit is like building a reputation; it takes time, so starting early helps!

Step 1: Learn Your Score & Report

Check your credit report for free once a year at https://www.annualcreditreport.com

- If you're new to credit, your score may not exist yet — that's normal.

- Why Check Your Credit Report?

Mistakes happen, and incorrect information can lower your score and affect your future. Common errors may include: accounts that do not belong to you, incorrect payment records, out-dated information, or even identity theft.

Step 2: Open a Starter Credit Account

Get a secured credit card (requires a deposit) or a student credit card. Alternatively, become an authorized user on a parent/guardian's account.

Option 1: Secured Credit Card

A secured credit card requires a refundable security deposit.

Example:

- Deposit: $200
- Credit Limit: $200

You use the card as a regular credit card and make responsible payments each month.

Option 2: Student Credit Card

Many banks offer student credit cards designed for young adults with limited credit history.

These cards:

- Have lower credit limits
- Offer educational resources
- Help establish credit when used responsibly

Option 3: Become and Authorized User

A parent or guardian can add you as an authorized user on their credit card. If the primary account holder has: A long credit history, and on-time payments. Their positive credit history may help you begin building your credits. **However,** if they miss payments or carry large balances, it could negatively affect you as well.

Step 3: Use Credit Responsibly

Only spend what you can pay off in full each month. Keep your credit utilization below 30% of your limit. A credit card is not free money. Only charge what you know you can pay off. Ex: Pay gas bills, streaming, groceries using a credit card; don't buy big-time purchases.

Step 4: Pay On Time — Always

Payment history is the biggest factor in your score (35%). Set up autopay to avoid late payments.

Example: If a payment is due June 15th

- June 14 → Good
- June 15 → Good
- June 22 → Bad

Step 5: Keep Accounts Open

Length of credit history matters. Avoid closing old accounts unless necessary.

Example: Person A: Oldest account is 8 years, Person B: Oldest account is 6 months. Person A looks significantly better to lenders.

Step 6: Monitor Your Credit

Use free tools from your bank or apps like Credit Karma. Watch for errors and report them immediately. Check your credit often to catch mistakes or fraud.

Look for:

- Errors
- Progress
- Fraud
- Score Changes

Factors That Affect Your Credit Score:

- **Payment History (Payment on deadlines)**
- **Amount Owed (Amount of credit used)**
- **Length of Credit History (Age of your accounts)**
- **New Credit (Opening new accounts)**
- **Credit Mix (Different types of credit)**

Tips:

- Never co-sign loans you can't afford to cover
- Avoid opening too many new accounts at once
- Credit building takes time — steady, responsible use is key.

Troubleshooting:

1. Did you find issues with the content on the page? Report it:
   a. ForFinance Troubleshooting Form
2. Do you want something added to the website? Request it:
   a. ForFinance Add Request Forms