



Establishment of Credit

There are a few things you can do that can help in your quest for establishing credit. The first thing you should do is open and maintain a checking and possibly even a savings account at a local bank. This is helpful in two ways:

- When you have active bank accounts in good standing, you are proving that you can manage money. While bank accounts aren't typically a part of your credit score, lenders can use this information to determine whether or not you are a credit risk.
- Establishing a relationship with a bank will improve your chances in obtaining a loan or credit card through them. If you already do business with a bank, they should be the first place to look. They know you and they value your business. This existing relationship should carry some weight when seeking credit.

Consider a Department Store Card

Generally, store cards are a bad idea because they lure you in with that up-front discount, and then the ongoing interest rate is very high.

Avoiding these cards is typically a good idea, but the ease in obtaining one may actually be a good thing if you're having trouble establishing credit. If you have struck out at the local bank, you may want to consider checking with one of the local department stores and see what type of cards they offer. Whatever you do, make sure you find out whether or not they report to the credit bureaus. If they don't, it will do you no good.

If you are approved for their card, you need to be disciplined and use it properly. Don't treat this new purchasing tool as free money, but only as a means to establish good credit. The limit will probably be low anyway, but you should make an initial purchase with it and subsequently pay the balance off in full. Once the card is active, it should begin to be reported to the credit bureaus. It is now important to maintain a good payment history on this card so your credit history can build upon it.

When All Else Fails

If you've tried the bank, department store, or even credit card companies directly and failed, not all is lost. Secured credit is a last resort, but it is much easier to obtain than unsecured credit.

When a credit card or loan is secured, it means that there is an asset linked to the account that the lender can take if you fail to make payments. When you have a

mortgage or auto loan, these are secured loans. If you fail to make payments, the lender will take your house or car in order to satisfy the debt.

You can establish the same thing at most banks with a secured credit card. You can pledge money you deposit in an account to secure the credit card. For example, you could obtain a secured credit card with a \$500 limit if you put a \$500 deposit in the bank that is linked to the card. If you fail to make your credit card payments, the bank takes your deposit.

Again, you want to check and be sure that this secured credit is reported to the credit bureaus, but if so, this can be a useful tool to establish that first piece of credit history. After you maintain that account in good standing for a while, you may be able to obtain a regular credit card or loan. For a list of banks who offer secured credit cards, please visit www.bankrate.com.

Establishing Credit is Only the First Step

Establishing a good credit history takes time. There are no shortcuts or tricks that can take you from no credit at all to a high score in a matter of months or even a few years. Your credit score is based on a number of factors such as payment history, length of time you've had credit, and much more. So, while it is important to initially establish credit, it is even more important to take the time to do the right things to maintain good credit.