

# How to Establish or Rebuild Credit

## Why Does Having Good Credit Matter?

How you handle your finances in the past, present, and future can impact decisions regarding approval of rental, loan and credit card applications. Insurance, utility services, and even employment can also be affected by credit. Since so many financial decisions are based on credit history you may want to consider these options to establish or rebuild credit.

### Step 1: Apply for New Credit

Be sure to ask if the issuer reports payment activity to one of the national credit bureaus because if they do not, the new credit will not help to build credit history. Choose only one or two places to submit an application with because an inquiry is placed on your credit report each time you apply for credit or services. Too many inquiries in a short period of time may hinder approval.

- **Gas cards and department store cards** are considered “limited use” cards. These are generally accepted for transactions with the issuing retailer. Many promise gift certificates or cash back when you charge a certain amount of money.
- **Secured credit cards** have credit limits based on a deposit made by you into a savings or credit card account. Since your deposit is the security, the card issuer can collect money from your deposit if you do not repay borrowed funds.
- **Visa® or MasterCard®** accounts are referred to as “universal” cards. They are accepted by many different types of merchants. Visa® or MasterCard® accounts may be easier to get through the financial institution where you have a checking account or savings account.
- A bank or credit union may approve a small loan. The lender may require that you have collateral or a credit-worthy co-signer on the loan. An asset is collateral which secures the loan; and your asset is forfeited if the loan goes unpaid. On co-signed loans, both parties’ credit files will reflect payment history, and both are equally responsible for repayment of the debt.

### Step #2 Credit Building Strategies After Credit is Approved

Be patient, it takes time to initially establish credit and even more time to restore good credit history if there have been late or missed payments in the past.

- Send at least full minimum payments before the due dates on all credit obligations. This is the single most important factor for good credit reporting status.
- Limit the number of cards you own and the loans you take out, along with keeping debt balances under 30% of each credit limit to help avoid becoming over-extended with debt.

Here’s an idea! No matter which type of credit card you are approved for, make small purchases, and pay the balance off in full every month before the due date. Your credit file will show use, on time payments, and you will avoid interest costs.

**Free Credit Reports:** [annualcreditreport.com](http://annualcreditreport.com) | 877.322.8228

Know what is on your credit reports by obtaining one free a year from Equifax, TransUnion and Experian.

**Building a Better Credit Report:** [ftc.gov](http://ftc.gov) | 877.382.4357

The Federal Trade Commission has this free and helpful publication on credit issues and reporting.