

Building a Credit Score From Scratch

Young adults starting out on their own often bump into a cold fact of financial life: Having no credit history can limit your options just as much as having bad credit does. Lenders, rental offices and insurance companies use your financial track record to judge how likely you are to pay debts and bills — and if you're a blank slate, you're generally considered a risk.

Fortunately, there are some simple steps you can take to quickly [establish your credit record](#).

Start with a credit card

One of the quickest ways to develop a positive credit history is with a credit card, which lets you show that you handle small amounts of debt responsibly month after month. Even if you can't qualify for a card on your own, there are ways to take advantage of this credit-building tool:

- **Recruit a co-signer.** You might be able to get a card if someone with good credit — such as a parent — is willing to co-sign the application with you. You and your co-signer will be equally responsible for the charges you make, along with any late-payment fees or other penalties if you don't make payments on time. Also, late or missed payments can damage your credit score and your co-signer's, too. But every time you make a payment on time, it will shore up your credit history.
- **Become an authorized user.** Another option is to ask a family member or significant other to add you to their credit account. First, though, make sure their bank reports activity by authorized users to the major credit bureaus — otherwise, this won't help your [credit score](#). And remember that here, too, your activity with the card can affect someone other than yourself.

Next steps

Once you have a card, your behavior with it will determine how high, and quickly, your credit score rises. To keep moving in the right direction:

- **Make on-time payments.** The most common credit-scoring model is the FICO score, and it is based on a combination of factors. The biggest, making up 35% of your score, is your payment history. Pay all of your bills (not just your credit card) on time to keep your score rising.

- **Keep balances low.** Try not to use your card up to or near your credit limit; it looks bad to creditors if your cards are maxed out. A good rule of thumb is to keep your balances at or below 30% of your total credit limit.
- **Don't over-apply for cards.** According to a recent NerdWallet study that included an [analysis of millennials' credit scores](#), many young adults are applying for the wrong credit cards and getting rejected — and that's hurting their credit, since excessive inquiries can make someone look like a bad credit risk. Apply only for cards you really want, and space out those applications.
- **Check your credit reports.** You have the right to get a copy of your credit report from each of the three major reporting agencies — [Experian](#), [Equifax](#) and [TransUnion](#) — once a year for free. Review yours and report any errors that might hurt your score.

It can be easier to build up good credit if you have a professional helping you. Consider consulting with a financial institution to help figure out the best way to establish credit and make other important financial decisions.

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