



## How Cards Build Credit

## Credit Learning Center



Previous

Some tips to the proper use of a credit card to build some good credit history.



Next

### Additional Credit Topics

**How Cards Build Credit** by Steven Anderson

### How Cards Build Credit

Okay, so you are young or just starting to build your credit. You already opened a checking account and you may have even gotten a small personal loan. But how do you take the next step? Everyone is telling you that you need a credit card to build your credit. That's not entirely true, although it is one sure way to go. But you have to be careful because using a credit card to build your credit is like playing the game Pitfall. Lucky for you there is a map to get it done safely.

The biggest tip anyone can give you is don't rush! If you have poor credit it takes time to fix it. If you have no credit it still takes time to get the ball rolling. Don't go out and overload yourself just because you think it's going to get the job done faster. The truth is it will actually hurt you, not help you. You need to be patient and make sure you do everything right. Starting to build your credit is like probation, you can't slip up. Make sure your bills are paid on time and make sure that you pay at least the minimum amount.



Now that you have started you need to develop good habits, just like you do with anything else. Make sure you are keeping track of every account and loan that you have, numbers and payments especially. Now you need to make sure you are paying the right amount to the right account and always, *always* pay on time. I can't emphasize enough on the always. If at all possible pay more than the minimum amount or even pay the balance in full, which will help you build good credit. Paying your debts off in a timely manner shows a borrowing responsibility and will allow you to handle more money in the future.

A wise man once told me the simplified version of the banker's cycle.

1. They want to lend you money.
2. They lend you money.
3. They get nervous and want it back.
4. You pay it back.
5. They want to lend you more money.

Now you need to arm yourself with information. The biggest key in the puzzle of good credit is knowing and understanding your credit score. Anytime you do anything that involves a line of credit it is recorded by one or all of the three major credit bureaus (Equifax, Experian and TransUnion).

They take that information and use it calculate your credit score. Your score is negatively affected when you miss a payment or are late on any credit payment, i.e. a mortgage, credit card or student loan. Your score is also hit hard if you are burdened by a large amount of debt, so try as hard as you can to keep your balance under 60% of your total credit. You are judged for a lot of things by your credit score so it is imperative that you keep your available credit as high as possible.

Next you need to choose the credit card that's right for you. There is a section in this website that will help you pick out the perfect card for you.

However, just because you apply for a credit card doesn't mean you are going to get it. People get turned down every day and knowing why is a very important factor so that you can correct the problem. Some of the most common reasons why people are turned down include:

- Too much outstanding debt (best way to fix this is pay off your smaller balance credit cards.)

- Not enough time at a current residence (Try to wait 6 months after moving.)
- Error's on applicants credit report (have one of the 3 bureaus correct the error).
- Cosigner cannot take on additional debt (find someone else with less debt).
- Unreasonable purpose for pursuing credit (ask yourself if you really need the loan).
- Not enough employment history (reapply after you've been working for 6 months).

Keep all of these things in mind, follow the simple steps and you will be able to breathe easier knowing that your credit score is as good as it can possibly be.