



First-Time Credit Guide: Essential Tips for Building Your Credit Score

Description

People often ask me, “Hey, I don’t know how to get started with credit. I know it causes problems for most people, but in this society, you have to have credit to exist. No one will issue me any kind of credit card. How do I get started?” Many people also ask me about how to re-establish credit, after they have already mucked it up before.

First of all, I caution everyone to be careful with credit. This is one of those, “Do as I say, and not as I do” kind of propositions, because I have had credit issues in my life at various times also. I will tell you how to go about setting-up stellar credit for the first time (or the next time), so that you can establish or re-establish a decent credit rating.

Personal Credit

This article will focus on the personal side of credit, which I suggest you fix before you get to the business side of credit, which I will discuss in a future article (or many). Credit issues can get complex, and this blog will deal with a lot of credit issues, including setting up personal or business credit, managing and maximizing your credit score, repairing credit, protecting your identity, and exercising your legal rights as a consumer. This posting focuses on an easy way to establish or re-establish your credit. Ready? Here we go!

Step One: Find \$500 to \$1,000. I know, you don’t have that much money. Everyone tells me that.

Rule #1: If you can’t save money, you have no business borrowing money! Remember this, because it is the theme for every credit-related issue I will discuss from now until I stop breathing (or blogging, whichever comes first).

Pay Yourself First

If you don't have the cash, open a savings account, and put 10% of your paycheck (or more) into it every payday. Do this before you pay any other expense, including your rent. If you pay your expenses first, you will never be able to save any money.

You might question me on this, but you have always paid your expenses first, and you don't have any money, right? Trust me, I know what I am saying. You will automatically adjust your budget, so that you don't starve. If you lose some weight, you will likely be healthier anyway.

Meet With a Loan Officer/Bank Manager

Once you have accumulated \$500 to \$1,000 cash in your savings account (I highly recommend \$1,000 or more), you will set-up a meeting with the New Accounts Officer at your bank. I always recommend getting to know the manager, so if you can get your appointment with him/her, even better.

At this meeting, you will explain to the officer that you have been consistently putting money into your savings account for the past (however many) months. You are happy that you have been able to save this money. You need to access some of it, but you don't want to take it from savings.

Tell them that you would like to borrow against your account on a 12-month basis. You would like to borrow \$1,000 of the money you have in the account.

The officer should set you up with a Secured Loan against your savings account. You may have to relinquish your passbook, or they may just put a hold on \$1,000 in funds. Since this is a secured account, your interest rate should be lower than a standard loan. Perhaps in the low double digits (i.e. 11.5%).

Yes, you are paying interest to borrow your own money. You could pay a whole lot more for setting up your credit. Compare this to the hundreds of dollars you would spend in fees and interest opening up a new secured charge card or loan online. This is better, trust me!

Rinse and Repeat

You will take the \$1,000 that you receive from the bank, and you will take it to a second bank. Note: Please deal with major banks, because they all report your loans to the Credit Reporting Agencies.

At the second bank, you will deposit this money into a new savings account. About one week later, you will go back to the bank, and tell them the same story you told at the first bank about wanting to borrow against your savings. After they agree, take the \$1,000 to a third bank, and repeat the process.

After the third bank gives you the \$1,000, go back to the first bank, and open a checking account with the money. This should now be about two weeks since you opened the first credit line.

The next week, pay \$100 on each of the three loans. Two weeks later, pay another \$100 on each of the three loans.

At this point, you have savings accounts (all encumbered) at three banks, which total \$3,000. You

have three credit lines, which now total \$2,400 (plus a little bit of interest). You have \$400 in a new checking account. Notice that if you add everything up, your net worth is still about \$1,000.

Establish Repayment History

Remember how you were saving money to build-up your initial savings? Now, instead of depositing this money into your savings account every week, you will use this money to pay your loans. Pay the loans down so that they are at \$300 each by the end of six months.

Pay \$50 per month each from that point, until you can pay-off all three loans. Yes, this process takes six months to one year. At the end of the process, you should now have three savings accounts with at least \$1,000 in each. Hopefully, you have increased your income at work during this time through a promotion, raise, or job change as well.

Wait 45 days after you pay-off all three accounts. Then, go back to each bank, and borrow the \$1,000 again from each. Deposit this money into the first checking account. In two weeks, pay \$250 against each loan. Two weeks later, pay another \$150 against each loan. Pay \$100 per loan after this, until paid.

Payoff Loans

Be sure that you keep each loan open a minimum of six months before you pay it off, or it won't help you as much. It is now 18-24 months since you began the process. You have six trade lines of credit history, all for \$1,000 or more, and all paid in full.

Hopefully, you do not have any other debt. You also should have at least \$4,000 to \$6,000 in total savings (you didn't stop saving, did you?). At this point (and you probably could have done it sooner), you should have no problem opening unsecured credit accounts with Visa, Mastercard, American Express, or anyone else you like.

If you had bad credit, these new accounts should help make up for some of that. This whole process probably did not cost you more than about \$100 in interest payments, it caused you to save a few thousand dollars, which you had been unable or unwilling to do before, and it has helped you establish or re-establish a good credit rating.

Conclusion

Hopefully, you have learned some discipline, as well, with regard to building savings and managing your expenses along the way. By the way, be sure that you continue to deposit money into your first savings account during this process.

Just because you are only paying \$150 – \$300 per month on the credit lines does not mean that you should stop putting the excess from your 10% paycheck contribution into savings. Even though the account is encumbered, you can still make deposits to it.

After using this strategy for at least six months to one year, you should be able to get secured credit cards. After about six to twelve months, your secured credit cards should transition to unsecured cards.



Look for future articles on credit repair, and read them before paying any money to a collection account or other aged balance that is negatively reporting on your credit report. Other credit-related articles on the way will be dealing with debt management, staying out of debt, proper uses of debt, and a whole slew of articles regarding business credit, mortgages, and investment financing.

Next Steps

If you need to set-up personal or business banking in the cloud, along with having easy, low-cost access international transfers with great exchange rates, we highly recommend [Wise Bank](#). For strictly business banking, we also recommend [Found](#).

Seeking to purchase a [home](#) or [car](#) in your future? Check-out the links provided.

Category

1. Uncategorized

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