

# How to Build Credit When you Have None

Self.

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Building credit from scratch can be a lot easier when you understand where to start and which mistakes to avoid.



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# Introduction

Good credit is a valuable tool with the potential to save you money and make your financial life easier to manage. At the same time, building credit when you have none can be a challenging task.

An important part of establishing **good credit** is opening accounts that report to the **major credit bureaus** and managing those credit obligations in a responsible manner. But there's a complication to consider. Lenders often require you to have good credit before they will approve you for new credit accounts. And when you lack previous **credit history**, it may be difficult to qualify for credit-building accounts like credit cards, loans, and more.

Despite the challenges of building credit when you have none, there's a wide range of actions you can take to get started—regardless of your situation. You just need to learn the proper steps to take (and the mistakes to avoid) when establishing credit from scratch.



# Types of people who typically don't have a credit history



Each of the major credit bureaus—Equifax, TransUnion, and Experian—maintains credit files on around 220 million U.S. consumers. <sup>1</sup> Yet according to the Consumer Financial Protection Bureau (CFPB), there are still 26 million Americans who lack a credit history. The agency calls these consumers “credit invisible.” <sup>2</sup>

On top of the 26 million consumers with no credit history, the CFPB found that another 19 million people have credit files that don't qualify for a credit score. All total, there are around 45 million people—20% of the U.S. adult population—who could struggle to access credit due to lacking credit history that's eligible for a **FICO® Score or Vantage Score** credit score. <sup>3</sup>

Anyone can fit into the category of “credit invisible.” Yet there are certain types of consumers who are more likely than others to lack credit history.





## Young consumers

It's common for young consumers to have no credit established. According to the CFPB, the majority of 18 year olds have no credit record with any major consumer credit reporting agency. Furthermore, adults under the age of 25 make up 40% of the population of credit invisible consumers. <sup>4</sup>



## Consumers in low-income neighborhoods

Your income does not appear on your credit report, nor do credit scoring models consider income calculating your credit scores. Nonetheless, research shows that consumers who live in low-income neighborhoods are more likely to lack a credit history or have credit reports that don't meet the criteria to generate credit scores.

According to a 2015 CFPB report, 30% of people who live in low-income neighborhoods are credit invisible. Another 15% of those consumers have unscorable credit reports. When you compare these figures to consumers who live in higher-income neighborhoods, just 4% of adults qualify as credit invisible and only 5% fail to qualify for a credit score. <sup>5</sup>



## Immigrants

Immigrants to the U.S. make up another group of people who frequently struggle due to a lack of credit history. Some countries do not have a credit system like the United States. And even if you relocate from a country with a similar credit system (and have good credit established in your previous country of residence), those records won't transfer with you to the U.S.

There can be many reasons why you lack credit history. You might fit into one of the categories above, multiple categories, or none of them. The good news is that regardless of why you haven't established credit previously, it is possible to do so with the right plan.



# 6 steps to build credit when you have none

When you set out to build credit from scratch, you need to find lenders who are comfortable working with consumers who lack previous credit management experience. Some lenders will require borrowers to have a minimum credit score and established credit history to qualify for a new account. Other lenders and credit card companies, however, design certain financing products with credit newcomers in mind.

The following six steps may help you build credit when you have none—and hopefully avoid some common mistakes along the way.





## 1 Review your credit reports

When you apply for a new credit card, loan, or other type of financing product, the lender that reviews your application will likely check your credit report from one or more of the major credit bureaus. Therefore, even if you believe your credit reports from Equifax, TransUnion, and Experian are empty of information, it's important to confirm that you're correct.

You can visit [AnnualCreditReport.com](https://AnnualCreditReport.com) to check all three credit reports for free once every 12 months. Through the end of 2023, the credit bureaus are extending free weekly credit report access to consumers as well.

As mentioned, each credit bureau maintains around 220 million consumer credit files. Managing such a large amount of data does leave room for error. And it's not just the credit bureaus that can make mistakes. Data furnishers—the companies that share information with the credit bureaus—can make credit reporting blunders too.

According to a 2021 survey by Consumer Reports, 34% of consumers found an error on at least one of their credit reports. <sup>6</sup> And since credit report errors could damage your credit scores, it's important to be on the lookout for these problems and to do something about them if they happen to you.

In some cases, **bad credit could be worse than having no credit** at all. With bad credit you might find it difficult to qualify for financing, rent a place to live, or even land some jobs.

## How to handle credit report errors

The Fair Credit Reporting Act (FCRA) gives you the right to **dispute** any information on your credit reports that you believe to be inaccurate. When a credit reporting agency receives your dispute, it has 30 (sometimes 45) days to investigate your claim. Depending on the results of the investigation, the credit bureau must complete one of the following actions.

Delete the inaccurate item

Update your credit file

Verify the information is accurate

If you disagree with the results of a dispute, you can try again. Keep in mind that it might be helpful to send supplemental proof of your claim that there's an error on your credit report if you can produce such evidence.





## 2 Open credit-building accounts

The bulk of your credit scores—35% of FICO® Scores and around 40% of your VantageScore—comes from the **payment history** of the accounts that appear on your credit reports.<sup>7,8</sup> Yet before you can display positive payment history (or more importantly, a lack of negative payment history), you need to have open and active accounts on your credit reports.

If no active tradelines appear on your credit reports, consider opening accounts with lenders and credit card companies that report to Equifax, TransUnion, and Experian. However, be aware that you don't have to go into debt to establish credit-building accounts.

Accounts like student loans, auto loans, and similar types of credit obligations have the potential to help you build credit. But there are other ways to accomplish this goal as well.

2 OPEN CREDIT-BUILDING ACCOUNTS

## Option One: Credit builder accounts

A **credit builder account** is one option to consider if you want to build credit without going into debt. The structure of this special type of installment account reduces the risk for the lender—making it a good potential option for people who need to build credit from scratch or rebuild credit after a setback.

### Here's how credit builder accounts work.

- When a lender approves your credit builder account application, it places your loan proceeds in a separate account (often a savings account or a certificate of deposit).
- You make regular monthly payments, just as you would with a traditional loan.
- The lender may report your credit history to one or more of the credit bureaus (depending on its credit reporting policy).
- Once you make your final loan payment, the lender should release your loan proceeds minus any interest and fees you owe.



If you're interested in opening a credit builder account, look for lenders that report account activity to all three credit reporting agencies (like Self). Accounts that don't show up on all three of your credit reports won't have the same credit-building potential.



**2** OPEN CREDIT-BUILDING ACCOUNTS

## Option Two: Apply for a Secured Credit Card

Another possible way to establish credit without going into debt is to open a secured credit card. With a credit card, you can avoid debt (and **avoid interest charges**) by paying off the full statement balance by the due date each month. And if you consistently pay off your account balance by the **statement closing date**, you can maintain a low **credit utilization ratio** that may help improve your credit score as a bonus.

The approval criteria that lenders require to open secured credit cards tends to be lenient compared with other types of financing. When you open a secured credit card you usually make a cash deposit that's equal to the credit limit on the account. By securing the account with your own funds, you reduce the lender's risk. So, credit card issuers are more likely to approve applicants with no credit or even bad credit scores for these types of accounts.

Some secured credit cards may not require an upfront security deposit. The **Self secured credit card** is an example of one such option. This secured card may be available to eligible Self customers with an active Credit Builder Account, \$100 or more in savings progress, and an account history of at least three on-time payments. (Requirements are subject to change.)

### 3 Become an authorized user

Building credit when you have none is a journey that begins with finding ways to add positive payment history to your credit reports. If you have a family member or friend who already has a credit card that's open and in good standing, that person might be able to help you speed up the credit-building process by adding you as an authorized user on their account.

Here's how the authorized user strategy works (and has the potential to help build credit).

- Your friend or family member notifies their credit card issuer that they would like to add you as an authorized user on their credit card account.
- The credit card issuer reports account activity to the credit bureaus for both the primary account holder and the authorized users on the account. (Note: Some card issuers may not report account activity to the credit bureaus for authorized users.)
- If the account appears on your credit reports, it could help or hurt your credit scores depending on the account history—just like any other type of tradeline on your credit.

If you have a friend or family member who is willing to add you as an authorized user, it's best to ask them to add your name to an account with no previous late payment history. **Late payments**, after all, have the potential to hurt your credit scores. You also want to be an authorized user on credit cards with lower credit utilization ratios since maxed out or highly utilized accounts could also have a negative impact on your credit scores.





## 4 Add utilities and rent to your credit reports

As a consumer, it can be frustrating to learn that many landlords and utility companies don't report current account details to Equifax, TransUnion, and Experian. Even if you've been paying rent and utilities on time for years, you may not be getting credit for that positive payment history.

Yet in recent years, several third-party services have become available that allow consumers to share rent and utility payment data with the credit bureaus. Here are two examples.

**Experian Boost®** is a free service that you can use to add eligible rent, mobile phone payments, utilities, and streaming services to your Experian credit report.

**LevelCredit by Self** is a subscription service (\$6.95 per month) that lets you add eligible rental tradelines to your Equifax, TransUnion, and Experian credit reports and eligible utility tradelines to TransUnion. (You can cancel anytime.) The service also provides an optional LookBack product. For a one-time fee of \$49.95, you can add up to 24 months of eligible past payment history to your credit reports as well. (The LookBack product requires an active subscription and eligibility requirements apply.)

The potential ability to get credit for past previous on-time payment history could be especially valuable. **Length of credit history** is worth 15% of your FICO Score. And having older accounts on your credit reports (and an older average age of credit) has the potential to benefit your credit scores.

## 5 Learn how your new accounts impact credit scores

When it comes to building good credit, how you manage your credit obligations matters most. As you research the [factors that influence your FICO Scores](#), you'll find that payment history and amounts owed top the list. Therefore, if you always pay your bills on time and maintain low credit utilization ratios on credit cards, you could be well on your way to earning decent credit scores.

Other details also matter where your credit score is concerned, of course. For example, you should avoid applying for too much new credit in a short period of time. An excessive number of new credit applications (aka [hard credit inquiries](#)) at once could hurt your credit scores.

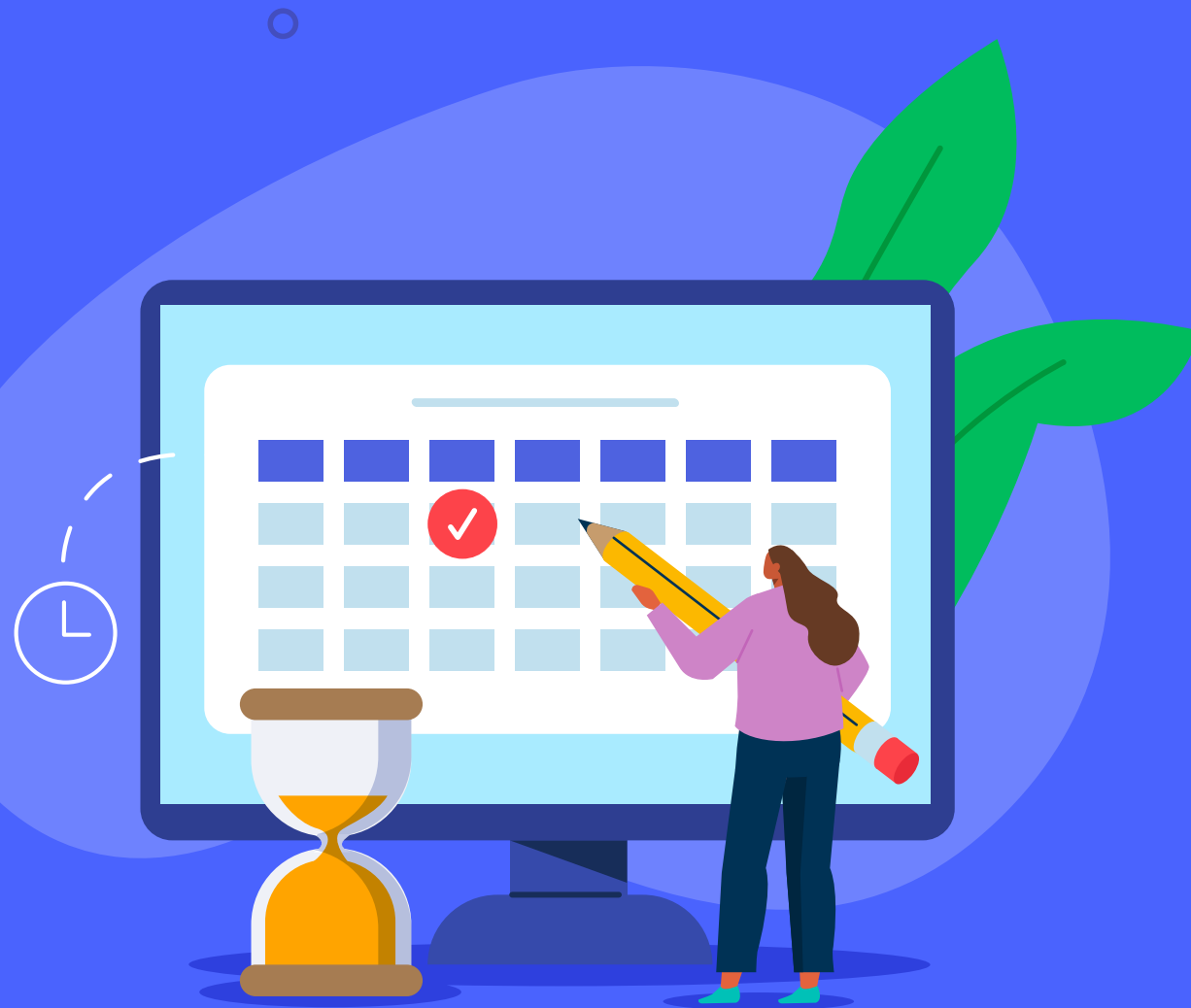
### Tip

[Checking your own credit reports](#) will never impact your credit scores in a negative way.

Once you establish your initial accounts, you may also want to pay attention to your credit mix. Having a variety of [account types](#) on your credit reports (e.g., revolving and installment) might also benefit your credit scores in the long run.







## 6 Monitor your credit progress

Building credit takes time. For example, your credit report will need to have all of the following elements before it's eligible to generate a FICO Score. 9

**A minimum of one account open for at least six months**

**A minimum of one account that has been reported to the credit bureau in the previous six months.**

A single account can satisfy both of the requirements above.

Your credit report also cannot contain a notation saying that you are deceased. If it does, you won't qualify for a FICO Score.

Because it requires effort and patience to build good credit, it's smart to keep an eye on your progress along the way. As mentioned, you can check your credit reports for free every 12 months at [AnnualCreditReport.com](https://www.annualcreditreport.com) (and once a week through the end of 2023).

It can also be helpful to **check your credit scores**. You can purchase 3-bureau FICO Scores from [myFICO.com](https://myfico.com) (or check your Equifax-based FICO Scores for free). And Experian offers free monthly access to your Experian-based FICO Score via the credit bureau's website. Once you open credit cards, you might be able to access a free copy of one of your FICO Scores through your card issuer if it participates in the FICO® Score Open Access Program.



# About Self.inc

Self is a financial technology company on a mission to give everyone the opportunity to improve their financial future. People who are new to credit and those without access to traditional financial products can face many challenges. Self aims to help solve many of these problems by making the process of building credit easier and more attainable.

Consumers can take advantage of three credit-building tools—the Credit Builder Account, Self Visa® Credit Card, and rent and bill reporting. Each product provides customers the means to add payment history to their credit reports with the major credit bureaus.

Results are not guaranteed. Other factors, including activity with your other creditors, may impact results. Failure to make monthly minimum payments by the payment due date each month may result in delinquent payment reporting to credit bureaus which may negatively impact your credit score. This product will not remove negative credit history from your credit report.



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