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REACH

HOW YOUNG ADULTS CAN ESTABLISH CREDIT

If you are currently in your first regular, decent-paying job, you will most likely have a punch list of priorities. You might want a new or a better car. You might want to spread your wings and get a rental apartment and, possibly later, your own home. And like most people, it's unlikely that you will buy a car outright -- you will need to get a loan and pay it off in installments. Likewise when it comes to buying a home -- you will make a down payment and get a mortgage loan for the remainder of the cost.

When you go looking for a loan, you may be surprised to learn that financial institutions charge different borrowers different interest rates. And more often than not, the reason for the rate differential is a borrower's credit record. When you apply for a loan, one of the first things a lender looks at is your credit record. Your credit record is a history of how well or how badly you've handled debt in the past. The information that goes into your credit record is gathered by consumer reporting agencies (credit bureaus).

Your credit record determines your credit score. A good score tells lenders that you have paid your bills on time and managed your credit wisely. That means that when it comes to all types of consumer loans, lenders will generally offer their most competitive interest rate to borrowers with a good credit score. Insurance companies and landlords may also review an individual's credit record to assess their overall reliability when it comes to finances.

That can be a problem if you are a young adult starting out in the working world. How can you build up a solid credit record in a short time?

Look Into Alternative Data Reporting Services

One problem facing young adults who are trying to build a credit history is that their rent, utility, and cell phone payments are not tracked by the traditional consumer reporting agencies. So even if you have a perfect history of on-time payments for these bills, it still won't move the needle on your credit score. However, there are various alternative data reporting services that will add these accounts to your credit history and recognize your financial responsibility in making payments on time. Experian Boost, for example, is a tool you can use to add payments for phone, Internet, cable and satellite, video streaming, and other services to your Experian credit history.

Take Out Small Installment Loans

Even if you have the cash upfront to buy an expensive item, financing it with a short-term installment loan could be a good way to start building a good credit record, assuming you make your payments on time. Before taking out a loan, make sure it has a reasonable interest rate with monthly payments you can manage without stressing your budget. Some people make installment loan payments for three to six months and then pay off the outstanding balance in one payment. Make sure there are no prepayment penalties if you plan to use this approach.

Manage Credit Cards Wisely

Pay your credit card bills on time. A consistent record of bills paid on time will improve your credit rating. If you miss a payment, get caught up as soon as possible. A credit card payment that is 30 or more days late will be noted on your credit report and can lower your credit score significantly. Always pay at least the minimum amount due. Paying less is essentially a missed payment and does nothing to help your credit score.

Lowering the balances on your credit cards can increase your credit score. It usually makes sense to pay off the card with the highest interest rate first. Simply transferring balances to new accounts -- without actually making payments that reduce the amount you owe -- will not raise your score. If you have a paid-off, unused credit card account, you may want to keep it open. Closing the account will reduce your available credit line and could lower your credit score.

A financial professional can help young adults gain make smart choices when it comes to every aspect of their finances -- using credit wisely, crafting a budget, building a retirement savings account, and investing for both short- and long-term goals.