

THE WALL STREET JOURNAL.

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.

<https://www.wsj.com/articles/how-college-students-can-build-a-good-credit-rating-1535726363>

MARKETS | WEALTH MANAGEMENT

How College Students Can Build a Good Credit Rating

A year-by-year look at what students can do while they are still in college



PHOTO: JAMES YANG FOR THE WALL STREET JOURNAL

By *Demetria Gallegos*

Aug. 31, 2018 10:39 a.m. ET

Establishing a credit history and building a good credit score can be a bit of a Catch-22 for young adults.

Take two of my daughters. Just as one was wrapping up her freshman year of college, she applied for a credit card and was denied because she has student loans (even though no payments are due until after she graduates). Her older sister, who was about to graduate without any student loans, was denied because she had no credit record at all.

 JOURNAL REPORT

- Insights from The Experts
- Read more at [WSJ.com/WealthReport](https://www.wsj.com/WealthReport)

 MORE IN WEALTH MANAGEMENT

- How Much You'll Really Spend in Retirement
- Readers Argue for Claiming Social Security at 62
- Steve Case's Best and Worst Financial Bets
- Tax Changes You May Have Missed

It used to be that card applications were thrust into the hands of college students during freshman orientation. But it became harder for young adults to get a card following passage of the Credit CARD Act of 2009, which requires those under age 21 to have a cosigner or proof of independent income.

So what is a young adult to do? Here are some steps to consider, year by year, to help students begin building a strong credit profile.

Freshman Year

Parents can start by adding their college freshman as an authorized user on one of their credit cards—but should do so only if they have good credit scores themselves, says Nancy Bistriz-Balkan, vice president of consumer education and advocacy at credit-reporting firm Equifax Inc. [EFX -0.26%](#) ▼ If they don't, it could hurt the student right out of the gate. A good parental score is in the high 600s or above, says Ethan Dornhelm, vice president of scores and analytics at FICO, which created the credit-scoring model most lenders see.

Tips for College Students to Establish Good Credit



00:00 / 09:43



Another good early option is a secured credit card, says Bruce McClary, vice president of communications at the National Foundation for Credit Counseling, a nonprofit in Washington, D.C. No credit check is required since the

card is funded by depositing cash. The consumer essentially spends his or her own money and replenishes it each month by paying the bill.

At age 18, students can begin requesting free credit reports each year from the big three credit-reporting companies, Experian PLC, TransUnion [TRU +0.26%](#) ▲ and Equifax via annualcreditreport.com. This allows them to check for fraudulent activity and begin to understand how their profile is built. The reports won't include a FICO score, however. Students may be able to get that free through their bank or by using Discover Credit Scorecard, an online tool. Free scores also are available through financial apps such as Mint and Credit Karma, but they use a model known as VantageScore 3.0, which can vary from the FICO score.

Sophomore Year

Some students have a car by now, subsidized by parents. Parents may be making the car payments, while the child covers gas and insurance costs. One way to help the student start building a credit history is to flip that arrangement: Have the student cosign the auto loan and make the payments, while the parents cover insurance and other costs. One caveat: The debt associated with that loan could hurt a child on future credit applications.

Experts say paying utility, cellphone and subscription bills on time, as well as responsible debit-card use, won't bolster a student's credit history. But students who live off campus and make reliable monthly rent payments can use services such as Rental Karma or ClearNow to have those payments reported to credit bureaus, says Jeff Richardson, vice president of marketing for VantageScore Solutions. Many of these services require landlords to be registered and charge monthly fees.

For the first solo, unsecured credit application, a gas or retail credit card is a good way to go, says Mrs. Bistriz-Balkan. The amounts approved are often low, so even a part-time job can provide enough income to qualify. With any credit granted, use it regularly but never let your balances grow to more than 30% of the available credit line. And pay it off in full each month.

Junior Year

If they can swing it, students may want to begin making small payments on student debt—even if they anticipate taking out more loans for the final two years of college. The lender will report payments to credit agencies, even for amounts much smaller than the full payments due after graduation. If students make the payments with an automatic debit plan, they may qualify for a small interest-rate reduction. Students should first research whether there are drawbacks to making payments before the loan is due, as might be the case for those entering fields that include loan-forgiveness plans.

In the case of my younger child, while her student loans initially led to a denial, she was ultimately able to be approved for a student credit card (with a \$500 limit) because when she appealed she was able to demonstrate that her remaining college fund was worth more than the loans that had sunk her. So students may want to apply for credit before the full four years of student loans have been issued, and while college savings can still be leveraged.

Students who have had a secured credit card for a year or two with a perfect payment history should be able to graduate to an unsecured one now. They should compare deals from various card issuers, including their current lender.



For a college student's first solo, unsecured credit application, a gas or retail credit card is a good option, says Equifax's Nancy Bistriz-Balkan. PHOTO: ISTOCKPHOTO/GETTY IMAGES

Senior Year

Students who still don't have a credit card of any kind should consider applying for a student card before graduation. These have relatively low credit lines, but less stringent underwriting so they aren't as dependent on income.

Those who have had a student card for a while with a stellar record should ask their lenders for more favorable terms, such as lower rates and lower—or no—annual fees.

“If you've have several years of no missed payments and your balances are relatively low, then there's no reason your FICO score wouldn't be in the high 600s or above and that's a pretty solid score that could qualify you for mainstream credit,” says Mr. Dornhelm.

Ms. Gallegos is a news editor for The Wall Street Journal in New York. You can email her at demetria.gallegos@wsj.com.

Appeared in the September 4, 2018, print edition as 'Year-by-Year College Education in Credit Scores.'

-
- [College Rankings](#)
 - [College Rankings Highlights](#)