

ESTABLISH A CREDIT HISTORY

Among recently-passed credit card regulations is a command that issuers stop giving credit cards to adults under age 21 unless these young people can show proof of income or have a co-signer who will vouch for them financially (usually a parent). The intent is to stop credit card companies from heavily marketing credit cards to college students – young people away from home for the first time who have been known to run up big debts that haunt them later.

Regardless of whether you agree or disagree with this regulation, it will no doubt mean more young people entering their early to mid-20s with no credit history. Because you need a credit history if you ever plan on financing a car or a home at a reasonable interest rate, this is an important issue. So, what should they – and anyone else with no credit history – do?

Here's the simple plan, get a secured credit card.

What is a secured credit card?

A secured credit card works like a standard credit card, but with a slight catch – you have to deposit money into an account as collateral before you use the card. The amount you deposit becomes equal to the size of your credit line. For example, if you deposit \$500 into your account, you can charge up to \$500 with the card. You then pay your balance each month, exactly like you would with a regular credit card.

A secured credit card is not the same as a debit card. You are responsible for paying your monthly charges with money you have on hand; your purchases do not get deducted from your deposited balance as they would with a debit card. The deposited money serves only as protection for the bank in case you don't pay.

When you pay your card balance each month, the bank reports your payments to the credit bureaus, who begin to keep track of your credit usage. You've established a credit history! Each month that you make on-time payments, your credit history lengthens and improves, moving you closer to the high credit score that will get you good rates on future financed purchases like a car or house. (If you fail to pay or pay late, you're still establishing a credit history – but a bad one.)

Beware of high fees

Secured credit cards do charge annual fees, but if you go with a major bank, they should be minimal. On the flip side, there are many secured credit cards and unsecured credit cards out there that charge hundreds of dollars in fees while promising to help build credit. Stay away from them! The companies offering these cards are either preying on the ignorance of newbies or they are selling a product to people who've ruined their credit and are desperate to get it re-established. These cards are not for people with no prior credit history.

NOTE: "Secured credit" means you have put up something of value as collateral in case you fail to pay your obligation. In the case of the secured credit card, the collateral is the money deposited up front, which the bank takes if you don't pay.

In the case of a car or house, it means the car gets repossessed or the house goes into foreclosure if you don't pay. "Unsecured credit", on the other hand, has no collateral – you are promising to pay the loan, but the bank or other creditor can not take away your money or possessions if you fail to pay. However, they can still sue you and your credit history would be ruined.

The easiest way to establish credit

Establishing credit is important to your financial future, and the easiest way to do so is via a credit card. You may not like credit cards, but consider this: Credit cards are the only financial tools that allow you to establish credit without forcing you to pay monthly interest. Understand the details of your credit card application, and as long as you pay your balance in full each month, you can establish credit for free (or almost free in the case of secured cards). If you choose to use credit responsibly, establishing a credit history can actually be very easy.