


# The Best Ways to Build Credit Without a Credit Card

You don't need to juggle credit cards to earn a killer credit score.

By [Megan Nye](#) | Aug. 7, 2018, at 9:00 a.m.

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A record of positive rent payments is one way you can prove you have a solid credit history without a credit card.   
(GETTY IMAGES)

Everybody wants the best mortgage rates, credit card perks, insurance quotes or apartment options. An awesome credit score can be the ticket to landing them, but getting that great score is easier said than done – especially if you don't have, or don't want, a credit card.

However, even without plastic, you can build a solid credit history and earn a top-notch [credit score](#).

## How to Build a Great Credit History

Working your way to excellent credit takes time, but it's actually not as confusing as you might think. To establish and maintain your own killer credit score, follow these five basic rules:

**Stick to your payment schedule.** "The most important way to build credit is to make all payments on time, every time," says Ryan Guina, founder of finance websites Cash Money Life and The Military Wallet. He adds that more than one-third of your credit score is based entirely on your payment history and cautions that your score will suffer severely from missed or late payments.

**Don't use all the credit available to you.** Maxing out your lines of credit signals to lenders that you're facing financial trouble. That's why 30% of your FICO credit score is based on your credit utilization ratio – a measure of how much of your credit limit you're using. In general, the less credit you tap into, the higher your overall score will be.

**Establish a lengthy history.** The goal is to show lenders that you're consistently responsible when it comes to your finances. So your score will benefit from credit lines that have been open for years and are in good standing. At the same time, you'll likely see a dip in your score if you try to open several new credit lines in a short period.

**Dispute errors and fraud.** In 2017 alone, 16.7 million Americans were impacted by identity theft, according to [Javelin Strategy & Research](#). Fraudulent charges, illegally opened accounts and even honest mistakes can wreak havoc on a credit score. So [check your credit reports](#) frequently to catch problems early and contest discrepancies.

**Pay down debt quickly.** A 2014 [BMO Harris Bank survey](#) found that 30% of respondents

By doing so, you're not only helping yourself but also helping others. A recent survey found that 60% of respondents mistakenly believed that carrying a credit card balance improves their credit scores. In actuality, carrying debt from one month to the next costs you interest and fees, compounding what you already owe and potentially making it harder for you to escape debt. Whenever possible, pay your balances in full to lower your credit utilization ratio and save yourself the interest.

### Why You Might Want a Credit Card

A credit card *can* be an excellent tool for proving your creditworthiness and working your way to a top-notch credit score. Plus, there are plenty of benefits that cardholders may enjoy:

- The convenience of swiping plastic instead of carrying cash.
- The ability to complete online transactions with ease.
- The ability to dispute charges instead of chasing someone down for cash.
- The unique protections available – extended product warranties, fraud protection, rental car insurance and more.
- The rewards you can earn as cash back, travel miles, store discounts and more.
- The [perks](#) for which you may qualify – exclusive retailer savings, hotel discounts, covered baggage fees and more.
- The ease of tracking your spending with your purchase history documented automatically.
- The interest savings from balance transfers during 0% annual percentage rate promotional periods.

[Read: [The Best Starter Cards for Building Your Credit.](#)]

### When to Avoid Credit Cards

Before you jump into credit card ownership, it's essential that you make an honest self-assessment. "The No. 1 reason not to get a credit card is if you simply don't trust yourself to use it responsibly," says Guina.

In fact, you should probably steer clear of a credit card if you can check off any of these boxes:

- You don't believe you'll make your minimum payments on time every month.
- You plan to use the card to finance luxuries you can't afford.
- You're applying for credit out of financial desperation.
- You're getting one just for the rewards or sign-up bonus.
- You plan to use the credit card for emergencies instead of putting an emergency fund in place.
- You don't understand the terms and conditions of the card.
- Your card options are limited to those with massive interest rates or onerous annual fees.
- You only qualify for a card with a tiny limit that you'll easily max out.
- You think that getting a credit card is the only way to build credit.

### How to Build Credit Without a Credit Card

Here's a fact that may come as a surprise to most people: You don't actually need a credit card to establish an excellent credit history.

Lynnette Khalfani-Cox, CEO and co-founder of AskTheMoneyCoach.com and author of "Perfect Credit: 7 Steps to a Great Credit Rating," says, "These days, there are fortunately several ways that people can establish or build a positive credit rating without the frequent use of credit cards or going into debt."

#### 1. Get credit for your rent.

Many people mistakenly believe that their credit reports contain details about their regular bills – rent, utilities, cable, cellphone and insurance, for instance. But credit bureaus typically never see your data for those payments. In fact, your activity on those bills will generally show up on your credit history only as a black mark if your accounts wind up in collections.

If you're a homeowner with a mortgage, the activity on that loan will definitely appear in detail on your credit report. But if you're one of the 43 million renters in the U.S., your solid rental payment history likely is invisible to the credit bureaus. That's particularly problematic for millennials trying to build a credit history from scratch, as nearly two-thirds in that age group who head a household are renters.

[Read: [How to \(Finally\) Understand Your Credit Report.](#)]

Khalfani-Cox, however, has a hack for getting the credit bureaus to take notice of your good renter status. "You can have a third-party company like RentTrack.com or RentReporters.com verify your on-time payment history with your landlord," she says. "Then these companies report your positive rent payments to the credit bureaus."

Khalfani-Cox notes that these services come with a price. But at less than \$100 a year, she says the result is more than worth the fee. "Doing this typically boosts your credit score by 10 to 20 points or more," she says. "Best of all, you're strengthening your credit profile based on something you're already doing – paying your rent – and you don't have to incur debt in the process."

## **2. Take care of your loans.**

If you have no debt whatsoever, you're in a small club. The fact is that most Americans carry some form of debt. Fortunately, the way you handle that debt shows up on your credit report and factors into the calculation of your credit score. And, Guina notes, the debt you're paying doesn't have to come from a credit card. "The truth is that you need to show a history of making regular, on-time payments to all creditors," he says.

Even if you've never carried plastic, odds are that you've had at least one loan in your life – maybe a mortgage, student loan, car loan, personal loan, peer-to-peer loan or home equity line of credit. But not all loans are created equal. "The type of loan impacts your ability to build credit," Guina says. "A student loan or mortgage will look better on your credit report than an unsecured loan, title loan, payday loan or even a loan financed by a store."

So, even without a credit card, you can build a solid credit history through responsible loan repayment. Just remember that your debt still costs you interest payments. So, with other options available to you, Guina doesn't recommend that you take out a loan solely for the purpose of building credit.

## **3. Look into a credit-builder loan.**

Guina's advice aside, some financial institutions actually offer a little-known type of loan whose sole purpose is to help you establish, or repair, your credit history. Known as credit-builder loans, these loans typically pay out only a few hundred dollars and allow you to practice good credit habits on a small scale.

While traditional loans lend you cash upfront and trust you to repay later on a predetermined schedule, credit-builder loans actually work in reverse. A bank or credit union starts the process by accepting your required monthly loan payments and holding them in an account. Only once you've paid off the balance – including interest – do you receive the money for the loan.

The lender reports your payment history to each of the [three credit bureaus](#) – Equifax, Experian and TransUnion – and that information impacts your credit score.

## **4. Sign up for a secured credit card.**

Khalfani-Cox points out that a secured credit card sounds like a credit card or other form of debt, but it's actually not. When you open a secured card, you hand over the amount of cash – maybe \$1,000 – that will act as collateral for your credit limit. Because secured cards present little to no risk to the issuers that offer them, you'll likely qualify for one even if you don't meet the criteria for carrying a traditional credit card.

**[Read: [Best Secured Credit Cards of 2018](#).]**

In fact, getting a secured card – and using it responsibly – is an excellent way to practice good financial habits and build your credit history along the way. Just make sure, says Khalfani-Cox, that your secured card issuer reports your activity to the credit bureaus. Once you accumulate several months of responsible usage, you may find that you can upgrade to an [unsecured card](#).

### **How to Get a Credit Card When You Don't Qualify**

So maybe you *do* want a credit card. But getting your hands on one is proving challenging due to your lack of credit history or a poor credit score. Fortunately, there are some steps you can take to ingratiate yourself with credit card companies.

**Repair the credit you already have.** If a low credit score is keeping you from qualifying for the credit card you want, [start cleaning up](#) some of your existing financial messes. While you typically can't erase money mistakes, you can examine your credit report to see which factors are most significantly influencing your score.

You may be able to pay down debt, negotiate lower interest rates with your current lenders, get your student loans out of default or take some other action to make yourself a more attractive



candidate for a credit card.

**Respect your secured card.** As we've already seen, a secured credit card can act as a gateway to an unsecured card. Just be sure to follow the rules for responsible credit use. If lenders see that you handle your secured card wisely, the issuer will be more inclined to offer you a "real" credit card down the line.

**Take advantage of someone else's good credit history.** Did you know that you might be able to piggyback off someone else's great score? Khalfani-Cox says that, when you become an [authorized user](#) on another person's credit card, you "inherit" that person's payment history. In fact, she saw the proof firsthand when adding her daughter as a secondary user to her own credit card account.

Plus, there's not necessarily any risk to the primary account holder. Your spouse or parent doesn't actually need to give you access to the card for you to see the benefits of having your name on the account. Be sure to check with the card company that the shared account will appear on your own credit report.


Earning an excellent credit score doesn't require you to fumble with a wallet full of plastic. While credit cards offer many benefits, you have plenty of options when it comes to building or repairing your credit history.

Tags: [credit cards](#), [credit scores](#)

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