How Teenagers and Young Adults Can Establish a Healthy Credit Score

Establishing a solid credit score as a teen or young adult is more accessible than you may think. You've come to the right place if you're new to credit, looking to build credit, and trying to develop an understanding of credit – or have a teen that is.

Credit score 101: Understand how it works

Knowing how credit scores are calculated and taking steps to build credit helps get lower-interest loans with better terms. Here's how it works.

There are three primary credit bureaus – Experian, Equifax, and TransUnion – that gather the information to generate each consumer's credit report. These credit reports then calculate a credit score with each bureau. The most reliable sources for what helps or hurts a credit score are the credit bureaus themselves.

Credit history is a key factor. That includes balances carried, on-time payments, late payments, and requests for additional lines of credit. For additional info, you can read more about credit score calculation.

Taking positive steps early and often will help build credit over time and set the foundation for a strong financial future. Let's look at ways to help teens build credit and scores to hopefully receive better financial offers, interest rates, and more when the time comes.

Shared credit cards offer access and accountability

Parents with established credit can help teens build their credit score just by opening a shared credit card. It's a practical, hands-on way for teens to grow under the right guidance. Cards can even stay in a parent's wallet to better monitor when it gets used and to ensure the balance gets paid in full each month. Parents should be upfront with teens and explain the benefits of using a shared credit card to establish a credit history. Note that not all credit cards offer joint accounts, and teens may need to be 18 or older. Also, keep in mind missed payments could actually hurt everyone's credit report. So accountability is key. But when used responsibly, a teenager's credit score and credit savviness will benefit from sharing an account with Mom or Dad.

Share a bank account to prepare for the future

Just like sharing a credit card, parents can help teens establish credit by opening a shared bank account. Although bank checking and savings accounts do not play a role in a credit report, most credit applications require applicants have an account to receive loan deposits. Lenders may also use the account to verify identity and income. Note that maintaining a minimum balance of a few hundred dollars in a bank account may help approvals for a credit card or other lines of credit.

Use federal student loans as credit builders

Federal student loans are reported to the three major credit bureaus. Having one can help college students build credit since it adds a new account to their credit report and increases their length of credit history. Private student loans are also reported, but they don't have the same benefits as federal student loans. Not only do most undergraduate federal student loans through the U.S. Department of Education have a fixed interest rate, they also don't require a credit check.

Depending on the payment, taking out student loans is one of the costliest ways that could positively or negatively affect a teen's credit history. When it's possible, teens should begin paying off the loan while in college to be closer to pay off when they graduate. That can further improve credit. The payments will appear on their credit report, which will enhance their credit history and credit score if they make payments on time.

Start out with a secured credit card

For someone with no or limited credit history, establishing credit and a good score is easier using a secured credit card. They're kind of like starter cards. Many are linked to the user's bank account as a way to confirm there's enough funds to use the card. The monthly statements give teens and young adults the chance to make regular, on-time payments. Not only can that lead to a credit score boost, it can eventually help qualify for an unsecured credit card with a higher limit or different types of loans. It can be a true win-win.

Utilize the power of phone payments

Having teens pay their own monthly cell phone payment on time can help build credit—with a few extra steps. While phone bills aren't automatically reported to credit bureaus unless they're in collections, some credit bureaus offer a service to add your payment history for utilities and rent. Ideally, payments are automatically deducted from a checking or savings account to limit any being late or forgotten.

Next steps for the next generation

Whether you're a teen or a parent of a teen, you're now equipped to start reaching financial goals. As you've learned, it takes a credit line to build credit. Teens that establish a shared line of credit with their parents can increase their credit score and build their credit history. Both are also significant life skills. Remember, small steps add up to big results. Ignore any temptation to start building credit someday down the line. The sooner any teen starts putting a plan into action, the faster their credit score will improve and their access to different financial options will come.