



How to Build Credit Without a Credit Card

Description

Building a solid credit profile is one of the keys to gaining access to a wide range of loan products at low interest rates. Without a credible credit history, you'll face more obstacles to getting the best deals. Trying to persuade lenders to approve your loan application will be challenging.

[Credit cards](#) are the most popular tools people use to cultivate a credit history. They're easy to use, convenient, and flexible. However, they also come with some drawbacks: high [interest rates](#), numerous fees, and the danger of accumulating excessive debt. For these reasons, some people prefer to minimize their reliance on credit cards. Maybe you're such a person?

Luckily, credit cards are not the only tools you can use to establish your creditworthiness. Here are some alternative options to explore.

Use a credit-builder loan

A credit-builder loan serves to shape your credit while allowing you to save money simultaneously. What's unique about a credit-builder loan is that you don't receive any funds up front from a lender. Instead, you contribute fixed payments over a prescribed period into a savings account. At the end of the period, you'll be able to access the money you deposited along with any interest earned.

Many financial institutions that offer credit-builder loan programs report your timely payments to [credit bureaus](#) like they would for a regular loan. These payments will reflect positively on your credit report, helping you lay a solid foundation for a stellar future credit score.

Apply for a personal loan

A personal loan is a type of installment credit where your lender issues you a lump-sum cash payment. You must pay back the total amount in installments over a set period, along with any interest that accrues. This period is referred to as the loan term and can be anywhere from 12 to 60 months.

Most personal loans issued by traditional lenders, like banks and credit unions, are secured. What this means is that the loan is backed by an asset that the lender can liquidate to cover the outstanding balance should the borrower default on payments. As a result, secured loans typically come with low interest rates.

Suppose you don't have an asset to pledge as collateral. In that case, you'll have to apply for an unsecured loan. Because there's no asset backing an unsecured loan, lenders will charge you a higher rate as compensation for the increased risk they assume.

Depending on your current credit standing, obtaining an unsecured personal loan may be challenging, primarily through a traditional lender. You may have to seek financing in the alternative lending market.

Join a lending circle

Lending circles refer to a group of people who form an organization to lend money to each other. They can be informal associations that comprise family members and friends or nonprofit entities that allow people from diverse backgrounds to join. The latter typically reports members' on-time payments to credit bureaus.

Lending circles can be a great way to build or revamp your credit. The eligibility criteria are generally easy to meet: you only need a bank account, a source of income, and must show you have a [manageable debt load](#).

One key benefit of lending circles is the low or zero percent interest rates they charge on loans. The affordability makes them the ideal credit-building option if you're on a low income.

Get a co-signer

Suppose you're struggling to secure a loan due to your non-existent [credit score](#). In that case, you may still qualify for the loan if you can find someone to co-sign your loan contract, which could be a family member or close friend. The person who agrees to this arrangement will assume all legal responsibility for the terms and conditions of your loan contract. Should you fail to make your payments, the onus will be on them to step in and cover them.

Using a co-signer can significantly enhance your credit history so long as you keep up with your payment obligations. Any payments you miss will negatively impact not only your credit but that of your co-signer, since both of you are jointly responsible for the loan. Ensure you honour your agreement to pay on time to avoid jeopardizing your relationship with them.

Apply for an auto loan

Are you currently scouring the market for a new vehicle? If so, consider financing your purchase with an auto loan. Much like a personal loan, your lender will extend to you a lump sum payment, which you agree to pay off in installments along with any interest charges. Since the vehicle backs the loan, your lender will assign you a low interest rate, making an auto loan an economical way to build credit.

Most auto loans have terms of five years or more. As a result, you'll have ample opportunity to make a slew of timely payments and gradually build your credit.

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