

## [How To Build Your Credit Score If You Don't Have One](#)

**Scott A. T.:** Broadcasting from One Dallas Tower, welcome to the Financial Rockstar Show. I'm your host, Scott Alan Turner, ready to help you get out of bed to save more money and retire early. In the studio with me, producer Katie. On the show today, I'll be answering your questions about money, business and life. You have a question you'd like answered on the show, visit [goaskscott.com](http://goaskscott.com), tweet me a voicemail.

Howan had a question.

**Howan:** "I was looking into buying a home and both me and my wife do not have credit scores. They are zero. We do not own any credit cards. We talked to some mortgage companies and they suggested that we start building our credits, ie owning credit cards. According to some personal finance experts, they say not to own one. We are self-employed and have been renting for years. The current place we are renting we've been at a year and a half. What are your thoughts? Is it okay to own a credit card and pay it off before it incurs interest? Is there another way out?"

**Scott A. T.:** There's a number of reasons you might have no credit score or a poor credit score. If you're a new arrival to the country, you wouldn't have a credit score. If you're a high school graduate, maybe a college graduate and you didn't have a credit card during college. If you've been incarcerated for a number of years and you're just getting out, you're not going to have a credit score. If you are in the military, you graduated high school, hopped into the military, traveled around the world, that's a common scenario where you might not have a credit score, as you are serving our country.

Roughly half of people with credit cards carry some type of balance month to month and they're unable to make those payments on the cards, which accumulates more interest, more late charges sometimes and is just a waste of money and it can become a vicious cycle to break out of. There are various reasons this happens. Some of them are self-induced, like overspending, buying too much stuff, not knowing how to handle money, that's common for a lot of us. Some of it's not self-induced. Maybe you have an emergency and you can't pay for it, so you turn to the plastic to accommodate that. You're 21, college graduate, the dog has cancer, the vet bills \$2000, you charge the vet bill even though you're only making 10 buck an hour. These things happen. There's a bazillion different kinds of situations and scenarios, so I can't criticize the person to make the decision to save their dog and charge on a credit card or not.

Having a good credit score gives you one thing having no credit score doesn't: choice. The best example I can provide is getting a mortgage. Yes, you can get a mortgage without a credit score from a lender that does something called manual underwriting. You prove you've got an income. Manual underwriting is different from automatic underwriting in that automatic underwriting is just done in 30 seconds by a computer. Manual underwriting means a human has to look at your application and make a decision based on charts, formulas and information they've got. With manual underwriting, you prove you've got an income, you've got a job, you show your tax returns for past one, two, three years, whatever they're looking for, you haven't gone to jail, you can pass a background check from the FBI, and so on. Different from automated underwriting.

I've got here, and they'll be linked in the show notes, is Fannie Mae, the eligibility requirements of manual underwriting, some of the things they're looking for, this is from page four. Fixed rate mortgage, even in this document, they've got credit scores, fixed rate mortgage you've got to have a credit score of 680 if your loaned value is more than 75%, and if that's if your debt-to-income ratio is less than or equal to 36%. Just letting you know, I'm not a manual underwriting expert. I'm just reading the document that I found on here. In that particular,

some of these require a certain number of reserves for you to have in your savings account before you can get the mortgage. Another example on this document, again debt-to-income ratio less than or equal to 36%, a credit score of 660 if your loaned value ratio is 75% or more, so that's what I just read, with a minimum reserve of six months. I don't know the difference between those two right there.

Oh, wait, there it is. 660, you have six months in reserves, or a credit score 680 with 0 months in reserves. That means after you go through the closing, you've got money in the bank or you don't. One you have to have a higher credit score than the other, even though it's manual underwriting, I guess in this case, they're still looking at credit scores, from this guide, anyway.

Moving on, we'll come back to that. If you don't have a credit score right now, there's a couple of options. You could do something that's going to report to your credit reporting agencies that is alternative credit, like a lease on a home or a cellphone if they report to the credit card agencies. Getting a secured credit card using Google secured credit cards, some are going to pop up, we'll come back to that in a minute as well. If you don't establish credit, you run a risk, and I don't say that lightly, because I don't want people to run out and run up a bunch of credit card debt.

It's just that here are some facts: not having credit harms your ability to qualify for a mortgage. Not all lenders do manual underwriting, and I got that quote from a popular personal finance website. That's straight off their website. Not all lenders do manual underwriting, which eliminates your choice as a borrower on the amount of lenders that you can go to. Do the people doing manual underwriting, are they going to offer you the best interest rate? I don't know. I don't know. You'd have to go to them and see what rates they're offering based on your specific situation, what your income is, how long you've been working, how much cash you've got in the bank, and compare that to a lender that is going to look at a credit score to compare the two. Who's going to get you the best interest rate?

If you want a small business loan, if you want to go through one of the peer to peer lenders like Prosper or Lending Club, they're going to look at your credit scores. Credit score impacts your insurance rates from the insurance companies. They don't look at your credit score, specifically, the way a lender does for a mortgage company, they look at your credit history to see whether you're going to pay higher or lower rates. Some employers are going to pull your credit report and see what they find in their. If you've got a bankruptcy against you that shows up there, that might be negative if you're trying to get a job in finance. It means you can't manage money, why would they hire you to run their finance department?

It's my opinion having a credit score at least in our society now is important. It's used for a lot of things, but the cop out with that is you've got to have discipline and be careful with it. It doesn't mean you have to use it every month, doesn't mean you have to charge every grocery bill and run up thousands of dollars of things on it. Go to the gas station once a month, charge 20 bucks for gas, pay it off. Just use it to tweak your credit history and grow your credit history. Don't rely on a credit card to fund your lifestyle. Two completely different things.

If you've got no credit, you're struggling to establish credit, you can look at getting a secured credit card. Best place to get those, credit union, and the way they work is you put up collateral on a card, so you open up a card, deposit \$500 and then you basically work against that collateral, or the deposit, better way of saying it. When you're looking for a secured credit card, you want to make sure it has a low annual fee, you don't want to pay an application fee, and you want to make sure it's got in place after you use it for 12 months, 18 months that they will switch it over to a regular card down the line, after you've built up a solid credit history.

This is coming from someone who hates debt. I hate debt. I hate debt of all kinds. I'm not a fan of taking bad debt on. We can debate good debt versus bad debt. Is a student loan good debt? Is a business loan good debt? Is a mortgage good debt? We're not going to dig into those right now. I can argue both sides of the coin. I hope you'll be able to someday as well. Here's the reality: it's one thing for someone to sit behind a microphone like me and make suggestions on what I would do based on my philosophy, and then there's the application side of things, where you need to make your own decisions based on where you are in life and what your life's goals are.

If your life's goal is to buy a McDonald's franchise for a \$1 000 000 and you've got \$100 000 cash put down on a loan, you need a credit score to go out and get a \$900 000 business loan. If you're trying to save up \$1 000 000 so you can buy a McDonald's outright with no debt, well, good luck. Good luck with that. If you're double income, no kids, high income earning family, yeah, maybe you can do that by buckling down and saving for twelve or fifteen years and then you go out and buy your franchise with cash. Certainly possible.

I don't think I would do that if I wanted to buy a franchise, and most small business owners. They get out small business loans. Keep in mind, most small business, I think 50% of them, fail within the first three to five years. Maybe they go bankrupt or however they do that, however they fund that, so you have to keep that in the back of your mind. If they took out a bunch of debt and then the business fails and they were personally tied to that debt, either through their home loan or whatever, however they were financing it, it's something you've got to be aware of. It's risk versus reward.

If you don't have \$5 000 in cash to buy a junk car after you've graduated college and you've got no job, you're making \$10 an hour, you need a credit score to go out and get a loan for \$5 000 so you can get a car and get to work. These are our realities. Doesn't mean you go out and get a \$30 000 car, but you can get a loan for a \$5 000 car. If you've been in the military for four years, traveling the world, you find yourself, "Alright, I'm done with my service. I need to rent an apartment. I need a credit score to rent most apartments." Not all, but most. Most rent places are going to require credit score or a bunch of money that you're going to have to put on deposit.

Here's what I think is my favorite example, because I've been through this twice and getting back to that quote, not every lender's going to do manual underwriting. If you want to buy a new construction home and get the builder's special incentives to work with their lenders where they waive the closing costs, that's common with a brand new home built from the ground up. You need a credit score to work with those lenders if they don't do manual underwriting. If you go out on the weekend, shopping for new homes and you find your dream home and you go, "Yeah, let's go ahead and sign up, let's sign the paperwork," it is too late at that point to go out and get a credit score. You have to have had one already.

Now, if you want to build credit without getting a credit card, I can appreciate that. Yole Turner has your back. If you are deathly afraid of credit cards, you are a renter right now, you can still build credit. Check out [renttrack.com](http://renttrack.com), another one is [clearnow.com](http://clearnow.com) - links will be in the show notes - and the third one is called Rental Karma. Rental Karma, here's a description. Founded on the belief that everyone should be able to build their credit score without having to go into debt, ie use credit cards, we are committed to providing an easy, simple service for renters to add their rental payments to their credit report, improve their credit score, and reach their financial goals. It does only report to Transunion, and that Rent Track and Clear Now, they report to Experian, and Rental Karma's 40 bucks to sign up, \$10 a month. You can check the pricing of the others, I don't know what they are.

That is an easy, low-risk way to build your credit without the possibility of getting into debt or taking out credit cards, so that is a win-win. If you are a renter, that is the perfect way to go, if you want to stay away from credit cards, which I can appreciate. To summarize and tell you what I just told you, credit scores are important, they matter, and if you're a renter, you now have a way to build your credit score without taking out credit cards. There you go. Thanks for the question.

If you are starting a business, you want to be a freelancer, small business, brick and mortar, online, whatever, and after you found the most amazing domain name ever, what do you do next? This is a question from my friend Bill. We were out at coffee one time in talking about business, and he sent me an email later that said, "Hey, I've got this idea, I registered a domain, what should I do next?"

Here are the steps I know I'm going to go through after you've blown the \$7.99 on the domain. One of the steps I do prior to that is usually I'll go see if the social media handles have already been taken. Twitter, Facebook, Snapchat, Instagram. See if somebody's already got those handles, because that sometimes impacts whether I'm going to get the domain or not. If I can't get the Twitter handle, I may change the domain, because I like that, when they all match. It's easier to give them out. If you've got the domain already, that's your next step. Twitter, Facebook, Snapchat, Instagram, Pinterest, because if you don't get it, somebody else is going to, and those are all free to give 20, 30 minutes to get them all.

What about after that? Some people, depending on what type of business you're getting into and the products and services that you're going to develop, you might consider trademarking your business name. You can hire an attorney to do that. I normally do it myself. It takes ... I'm trying to remember the last time I did my own trademark. You can go to the United States Postal ... It's USPTO, United States Patent and Trademark Office, I believe that stands for. There's a trademark search called TESS, and you submit your trademark through their service called the TEAS. I don't know if that's how you pronounce it. That's how I pronounce it, tease. You would not necessarily do those right off the bat unless you think, "I've got the most brilliant idea ever."

Spanx is a good example. Spanx, the body-forming stuff for women. If that was your idea, you had something incredible like that, yeah, I'd run out and trademark it right away to keep from ... Research it first. You can use the search tool to see if somebody's already got it trademarked. If they do, you're going to, my suggestion, shy away from that, try to find something else, then you don't get into trademark lawsuits, because if your idea blows up or you start franchising your business, somebody's going to come along waiting, they're just going to sit on the sidelines, waiting for you to make some money so they can pounce on you and say, "That's my name. That's my name. Take it back."

Good example? The World Wrestling Federation. The World Wrestling Federation. WWF, which after a long, hard-fought legal battle with the World Wildlife Fund, they lost that, so now WWF, the wrestling, is now WWE, World Wrestling Entertainment. Not afraid to admit, I know a lot about wrestling. Takes about 18 months to get a trademark approved. Why? Because it's the government. It's the imperial federal government. They have no incentive to work quickly. I'd like to say they're doing a thorough research on it, but no, those people are not getting paid huge sums of money and they're probably understaffed, so it takes them a long time to do this stuff.

If you've got a domain, you start putting materials out there, you can argue that you have first use of the trademark if something comes up, if you want to wait a couple of years and not do the submission. I always do my own trademark submissions, it's cheaper than hiring a lawyer. You can Google how to do it yourself. There's probably legal services that do it for cheap. The website's terrible, doesn't make a whole lot of sense, there's lots of jargon,

sometimes it gets bounced back because they want more information. I've had that happen before. That's my limited legal background. Not a lawyer, those are the steps I usually take. If you're inventing the next Spanx, the next Underarmor, it's going to be a big brand, hire an attorney. Don't forget about the little people when you're a big, famous, rich billionaire. Send me Diet Coke, thanks.

Adam Earns, 140 000, and is not eligible for a Roth, asked where he can invest extra for retirement. Says,

**Adam:** "I currently make about \$140 000 a year, and withhold enough to max out my 401(k). It's my understanding that I make slightly too much for a Roth IRA. I also discovered last year I am unable to deduct the amount I put into my traditional IRA. Should I just start putting any excess money I save into my taxable Vanguard account? I have an emergency fund established and I'm not eligible for an HSA, Health Savings Account, this year."

**Scott A. T.:** Nice salary, dude. That is some great coin. A couple things that you can look at. You're right, with a Roth, if you are making as much as you do, over \$131 000, you are not eligible. Then the phase-out period is between 116 and 131, but traditional IRA contributions, they're not limited by your annual income, and why you can add money to a traditional IRA. You don't get any tax advantage of a certain amount, but here's the trick. You can make what is called a backdoor Roth contribution, and the way this works is, first you make a regular contribution to a traditional IRA with whoever's maintaining your IRA, say Vanguard if you're with them. Once you make that contribution to a traditional IRA, you can convert to a Roth, and it grows tax-free.

Your initial contribution, even though it was non-deductible, which you found out, you've already done that, you only pay taxes on the converted value when you do the conversion, but typically it's not much, because you're doing the conversion in a span of a couple days. If you fully-funded it on Monday, did the conversion on a Wednesday, you know how much taxes you're going to have on that? Probably none, and you make a fully non-deductible contribution of the traditional IRA up to the max of \$5 500. Once you do that, you can convert it, the full balance, into the Roth, and because the income threshold for contributions don't apply to conversions, the income limitation for Roth's don't come into play.

It's a sweet, sweet, sweet, sweet, sweet deal. It is one of those sneaky evil rich people tricks to get around paying taxes. You're still paying taxes on it because you've paid on them now. Just a way to get into the Roth. It's 100% legal loophole you can use to let your money grow tax-free in a Roth and pull it out tax-free in retirement, even though you're not eligible for a Roth IRA because of your high income, so if you can fully fund the \$5 500 and still have more money after that, yes, then add more into your regular taxable brokerage account. Since you're in Vanguard, I'd give them a call. They can walk you through the process. Also, if you did an IRA last year and you haven't yet filed your, well, we're not up on tax-time yet, you're still before the deadline, you could do the conversion now before the tax-deadline for the money that you put in last year to your traditional Roth. You can do a Roth conversion for last year's money as well.

I would look at doing that because it's going to let that money grow tax-free so you can pull it out in retirement tax-free, not paying taxes on it, which is going to be awesome. Give Vanguard a call, see if they can walk you through the process. Also, you probably want to check with your CTA, who's doing your taxes, make sure you get covered on that end as well for any type of stuff that's going to come up on the tax forms when you go ahead and fill those out if you have not already done that. You may even need to do an amended return if you decided to go and pull out last year's IRA contributions and do a conversion on those. Thanks Adam, great work on saving for retirement. Keep it up.

Shake, shake, shake, two shakes of a lamb's tail, and we'll be back. You're listening to Scott Alan Turner.

Hey nation, Scott Alan Turner here. Now, for those of you that are my long-time listeners, you know I'm not one of those guys on the radio who promotes every product that show up on their desk. You're never going to hear me trying to get you to buy enriched white flour - delicious, or recommending you buy Windows - Blue Screen of Death. No. I have a name to pull to you, the Rockstar Nation.

If I were to recommend something to you, I would tell you about Himalayan cats. No other cat requires as much brushing as a Himalayan. You can spend hours of peaceful time brushing, brushing your Himalayan cat. With all that extra fur you collect, you can stuff your own pillow, saving you money from that expensive down pillow you've been considering. Win-win. If you can figure out how to spell Himalayan and type it into Google, tell them Scott Alan Turner sent you.

Mike from Petersburg, Illinois, asks about index funds that pay dividend income. He says,

**Mike:** "I've been hearing more about index funds that pay dividends and the 4% rule. I have a Roth IRA currently, but am very curious about the index funds that pay dividends. The idea of investing in index funds and then being able to retire and live off the 4% is very enticing. What are your thoughts? Also, I know there's a max for IRA contributions, but if I am maxing out the IRA, can I still invest in index funds?"

**Scott A. T.:** A common part of retirement planning is to use dividends paid out as a source of supplemental income. It could be your only income if you have enough invested, but it takes a lot of it. Typically, it's part of your retirement income, not a whole source. For those who are not familiar with dividends, brief explanation. When a company makes a profit, sometimes they share the profits with the shareholders of the company. Let's give you an example, if you owned \$1000 of a stock and the company paid a 3% dividend because they made a lot of profit that year, you'd get \$30 for owning the stock, \$30 a year. We're not going to dig deeper into how they work. That's just the general rule. If you own a mutual fund or an index fund, any employer retirement plan, you're getting dividends. You never see them, because they get reinvested for you in the plan.

Mike, here's a quick example. The Vanguard High Dividend Yield Investor Shares, that's the big long name for the fund that Vanguard, it's an NX fund. It's just loaded with companies known for paying dividends, and right now it's paying out 3% a year in dividends. If you took the cash distribution, meaning the dividends hit your bank account when they get paid out, you pay taxes on it at your ordinary income rate. If you had a million dollars in that fund, pays 3%, you get \$30 000 a year income without you having to touch your investments. This is the payout. Buy a couple of rent houses, bring an extra \$10 000 a year, I can live off \$40 000 a year. Well, I couldn't. Some people could. I can't because of my health insurance. \$40 000 would not cut it, but if \$40 000 sounds good to you, you'd be in good shape, you wouldn't have to touch your nest egg or at least not much, that's certainly an option.

Vanguard has several good, low-cost index funds that do pay dividends, and supplement during income with investments that pay dividends, is part of many early retirees portfolios and planning, and regular age retirees as well, those in their 60s or 70s, or those that retire, basically for anybody who's retiring at any age, that can be part of their plan. It's certainly something to dig deep into if you're going for early retirement and see how much you need, how much you can get out of those, but just like any investment, dividends come with risk, and that's variable, because dividends are not necessarily consistent. They depend on the market, which is why it's very good to have a diversified fund of companies and a diversified investment portfolio, especially those that are found in index funds.

Let me give an example: Coke. Coca Cola company has paid a dividend since 1920, long time, and they've increased their dividends in each of the last 54 years. If you owned a million dollars of Coke stock, which is 23 000 shares at the current price, for every share you own, they paid a dollar, a buck thirty in the year 2015. At a buck thirty, you had 23 000 shares, you'd make \$31 000 in dividends, just buying on Coke, but you wouldn't want to own a million dollars with Coke and live off \$31 000 because something happens to Coke and the stock tanks, they're going to stop paying dividends. Just what happened to Blue Bell recently. I don't know if they're publicly traded or not, but if the company shuts down because of food poisoning and they're not making any money, well they're not paying out any dividends, so there goes your income, which is why you want to be diversified.

To you IRA question, yeah, once you max out on IRA or any retirement account, 401(k), employer sponsor plan, once you hit the limit, you would open an individual brokerage account, and you can do that at Vanguard, Fidelity, Schwab, Robo Advisor, you just put in after-tax money from your take home pay, you don't get it deducted from your taxes, it grows hopefully each year, some years it's not going to grow, and you pay capital gains when you sell those investments in the future. Investment goes up, you pay taxes on the money you've made, not the principal investment. Typically, after you've maxed out all your retirement accounts, then if you have even more money to invest, you start looking at individual retirement accounts. Thanks Mike for the question.

Hannah asked,

**Hannah:** "Does selling an underwater car hurt your credit?" This was a follow-up question. Hannah works part time, earns \$9 an hour and her fiance brings in extra income with a full-time job, he makes \$11 an hour. They own a 2004 worth nineteen five and not the balance is seventeen three, and a second car, a 2013 worth about \$16 000 when we first got it, now the balance is at 14 100. The question is, "How can I let my car go without hurting my credit score for seven years, because that's what's going to happen, isn't it? That's the only reason I've held onto my car for so long. Do I still need to let the cars go or just one of them if at all?"

**Scott A. T.:** A car loan is a type of installment loan. Pay the same amount every month. Your credit is only hurt if you miss a car payment, so if you're late with a car payment, or if you don't make any car payments at all and the car gets repo'd. Those are going to show up negatively on your credit report. The credit scoring agency, they don't know if your loan is higher than the value of your car. They just see here's what the loan balance was, when they took out the loan, here's a starting amount, whatever that happened to be, they see your monthly payment amount, since this is an installment loan, same amount every month, and if you paid it on time, never late, it's called, "Paid on time, never late," if you have a look at your credit report, so if you have a late payment, sixty days, ninety days, whatever days past due, that's going to show up and ding your credit.

Let's say, all right, you get the \$17 000 car, and you could write a check for, make up a number, say \$5 000, and you could pay it down to \$12 000. Your credit score is not going to change at all. It's going to show a lower balance from the total that you started with. Let's say you sell the car, \$17 000, you write a check for all of it. Credit score again is not going to change. It just shows balance paid in full. It may rise, oh, a hair, just because now you don't have this loan on your credit report, but it's nothing significant.

Let's say you're upside down on the car and the car, no matter how much it costs, what the balance is, you are upside down by \$5 000, meaning if you sold it, the difference between the sales price and what you owe on the loan is \$5 000. You go to a credit union, local bank, you get a loan for \$7 500 after you've explained the situation, "Hey, I'm upside down on my car, I need \$7 500, my plan is to get a \$2 500 car. I'm going to take the extra \$5

000, get rid of the car by selling it." Remember, you're \$5 000 under water, so that's the difference that you had to come up with in this situation. Whoever's going to buy it, they're going to pay off part of the loan, your extra \$5 000 is going to cover the difference between what you owe and the value. You've got a new loan, new installment loan, of \$7 500, you go out and buy a \$2 500 car. Your old loan would show up as being paid in full, and then you've got this new \$7 500 loan on your credit report.

Again, your score might dip a little, temporarily, just because you're swapping a new loan for an old loan, but it's nothing significant, and who cares if it drops 25 or 50 points? You swapped \$17 000 in debt for \$7 500 in debt. I will take the \$10 000 in savings and your credit score is going to come back up in a few months anyways. Someday, when you start looking at houses, it's going to look better to have zero dollars in car loans on your credit report than anything more than zero dollars in car loans. That's more important. You get a mortgage rate.

If I'm in your shoes, I'm unloading both cars, simply because of your income levels. You are working for the sole purpose of making a car payment and the value of the vehicle is going down, so you're spending four hours a day, your fiance's spending eight hours a day, and it's the equivalent you both are driving home and you're just throwing \$10 out the window and making it rain. Yeah, you've got a nice cars and they look good, they're probably fun to drive into work. I like having money. That's me. If you have money, if you didn't have the debt, you'd be so much happier, I 100% guarantee it. Nobody who gets out of debt ever says, "Man, I wish I had more debt again." They don't say that. Being debt-free is going to be way more enjoyable to you. It will not hurt your credit paying off your car. Thanks again for the question.

Wins from the Rockstar Nation. Sunshine says, "I was able to pay another \$1 200 toward my student loan." Brian S sold some guitar gear that had been sitting around unused, got him an extra \$150. Megan income for the year is above last year's income due to more repeat business. She's a freelancer. Denise reduced her data plan on her cell phone bill this week. "I'm a data junkie, my use has been slowly creeping, causing our bill to increase about \$40 a month." Now she's got an extra \$480 a year to put towards debt payment. Matt's finally followed through and put most of his bonus towards the credit card which is now cut in half.

Final words. Where'd it go? Here it is. "A winner is just a loser who tried one more time." That's from George M Moore, Jr. Those are the words.

That's it for this episode, I'm your host, Scott Alan Turner, Rockstar, and Katy is my producer. All links mentioned in the show are available in the show notes, scottalanturner.com. If you have a question you'd like answered in the show, visit [goaskscott.com](http://goaskscott.com). Thanks for listening.