Help Build Your Child's Credit Score

One in three young adults (ages 18-34) report that they are struggling with inability to manage debt, according to a National Endowment for Financial Education poll. Debt can be a tool or a trap. Consumers with the highest credit scores qualify for the best interest rates on home and car loans. Lower interest rates can save thousands of dollars over the life of a loan. Landlords, employers, and insurance agents often use credit scores to assess the risk of doing business with someone. Set your children up for financial success by teaching them to manage credit wisely.

Teach your child how to check a credit report. There are two purposes for checking your child's credit report. First, you can teach your child how to check and read a credit report. Second, you can monitor for identity theft and fraud. There are three main credit reporting bureaus: Equifax, Experian, and TransUnion. Individuals are entitled to a free report from each bureau each year. Check one report every four months to monitor throughout the year. Be sure to use the correct website address at www.annualcreditreport.com. Look for incorrect information. If you find errors or suspicious activity, be sure to contact the credit bureau.

Start a credit history. Individuals build a credit score by using credit wisely. Add your child as an authorized user or co-sign an account with your young adult child. An authorized user may make purchases using your account. You are responsible for paying the debt. Your good management of the account will reflect positively on building your child's credit score. However, if you have late payments and keep the card maxed out, this will not only hurt your score but can also damage your child's credit score. If your child is 18 or older, you can co-sign a credit card with your child. You and your child are equally responsible for paying the bill. If your child overspends or makes late payments, this can reflect poorly on your credit too. Whether authorizing or co-signing, it's important to set ground rules. Make sure your child knows what purchases are acceptable to charge on the account. Set usage limits. Co-signed cards can have a low limit to keep your child from overspending. A low limit keeps total debt to a manageable amount in case you end up having to pay all of the charges.

Be a good role model. Children learn from their parents. They are likely to repeat behaviors they observe in their parents. Talk to your kids about good financial management practices. Live within your income. Limit your use of credit. Make more than the minimum payment or pay off balances monthly. Pay all bills on time.

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