

Authorized User Accts – Not all bad...not all good...

It has long been known that adding a spouse or your child as an authorized user to an existing good standing credit card is a great way to help them establish credit. This much utilized (sometimes over-utilized) practice can still help, but it should be used as a short term solution.

Lenders are now requiring the removal of authorized user accounts before they will approve the loan, since the credit report and score is not an accurate reflection of the borrower's credit. Since an authorized user is not responsible for and usually does not make payments on the credit card, the removal of these accounts could mean a loss or dramatic decrease in the credit scores and possibly the loan.

Over the years "piggybacking" on someone else's credit has become frowned upon by lenders since some have taken advantage of the situation. There are companies that sell "spots" and pay individuals a fee when they allow the company to add authorized users to their existing good standing accounts. For a borrower "buying" a spot on someone else's account can cost them anywhere from \$500 to \$5000 depending on the history of the card. This practice has given authorized user accounts a bad name.

Adding your child or spouse as an authorized user should be a stepping stone to help them establish credit, but not a long term solution. Once the authorized accounts have helped them establish new credit and credit scores, this person should start establishing credit on their own. Secured credit cards or secured lines of credit are an excellent way to build your own credit. Most gas cards and department store credit cards are also a great way to build credit. Make sure you make payments on time and keep the balances low – preferably below 25% of the high credit. It is best to establish two or three credit cards in your own name. By planning ahead, you will be ready for that big purchase with the credit you established on your own.

Once you have established your own credit, it's time to remove the authorized accounts on your credit. The borrower or co-borrowers, those responsible for payment on the account, will need to request that you are removed as an authorized user on the account.

The National Association of Realtors (NAR) statistics show that show that 50% of people buying homes in 2010 were first time homebuyers and they expect that number to stay the same or rise for 2011. Many of these buyers may not be aware of the importance of establishing credit in their own name. If done correctly and with proper planning you won't have any hurdles to jump over when it's time to purchase that new home.

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