



Being an Authorized User: What It Won't Do for Your Credit Score¹

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Recently, Fair Isaac Corporation changed the rules regarding how being an authorized user on a credit card in someone else's name can appear on your credit report and influence your score. This represented an important change that can help and hurt consumers. Before discussing this issue, let's first revisit the elements of one's FICO credit score.

FICO[®] Score

Credit reporting agencies collect data and share that information with the Fair Isaac Corporation. The data is used to generate a credit score or FICO score. Credit reporting agencies such as TransUnion, Experian, and Equifax can share your score with lenders, property owners, and anyone else you grant permission.

Your FICO score is divided into five categories: payment history, amounts owed, length of credit history, new credit, and types of credit being utilized. These areas do not affect your score equally; payment history and amounts owed alone account for about 65% of your FICO score.

Being an Authorized User

In general, the data mentioned above is recorded and stored for the accountholder of a credit account, which can be more than one person on a joint account. However, it used to be that the information recorded was for those who were authorized users on these accounts as well. This could both help and hurt an authorized user. If the accountholder managed the account well, then this would benefit the authorized user. However, if the accountholder mismanaged the account, this negative information could hurt an authorized user of the account. Thus, as with most credit behavior, positive behaviors improve one's record, while negative behaviors, even if not one's own, could hurt one's record. One benefit is that since the user is not an accountholder, the user would not be liable for the debt from the lender's point of view.

Since being an authorized user does not necessarily help or hurt someone, why do people do this? One common example is for parents to have an older child, of high school or college age, be an authorized user on the credit card. This allowed parents to help their children build credit while retaining control over the account.

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Another common beneficiary of the authorized user treatment was couples, especially older couples or couples with larger age or experience gaps. One common situation was that the individual with poorer credit would be an authorized user on an account held by the individual with better credit. Thus both members of the couple had access to the credit card at possibly a lower APR than would be given to the individual with the lower credit rating.

Thus until recently, being an authorized user was an easy means to establishing a credit history. If the account holder had you listed as a user and kept the account in good standing, this would help your credit history as well. Recently Fair Isaac changed this part of their computations to exclude the data for an account if one is merely an authorized user.

Whom Does this Affect?

College Students

Many college students rely on being an authorized user to build credit. Because of this change in Fair Isaac's computation, these students, while still being able to use their parent's credit, will no longer be building their own credit history in the process. This may be problematic for those students who would need credit histories upon graduation for property owners or perhaps even car loans and mortgages. Students who need to build credit will thus need credit in their own name.

Couples

In some household or family situations, a breadwinner may have been the only one with credit in his or her name, making a spouse an authorized user only. Previously this would have led to building credit for both parties. If this credit was used responsibly, both parties credit scores would improve. The opposite is true as well, if credit was mismanaged, both users' credit scores would have been damaged. However, now one may find themselves being quite a bit older, but not having the credit history and thus credit rating they might have assumed. This may be of concern especially to widows or widowers.

Find Out More

In closing, to better understand how this does or not affect your credit score and report, you can always request free copies of your credit reports to find out what accounts are being reported under your name and the status of those accounts at www.annualcreditreport.com. There is a fee; however, should you wish to obtain your FICO score. Note that the score is only beneficial if you are currently seeking credit. Otherwise your free report provides the information you need to check for identify theft and monitor your own behavior. This Web site is endorsed because it is the Web site established under the Fair and Accurate Credit Transactions Act (FACT Act) of 2003. Other similar sites, are more aggressive with selling services.

References

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