



## How to Establish Credit

Many people ask how they can establish or re-establish their credit history. This is an important question because credit records are essential to obtain credit. The information in your credit report is used by potential creditors to determine if you are a good risk.

Credit is a way of having something now and paying for it later. Many of us want to take advantage of flexibility in our spending plans by using credit. It usually isn't free; it's paid for by interest that varies.

### **Suggestions for establishing your credit or credit history**

You can help yourself establish a good credit history by doing the following:

- Open a checking and savings account at a local financial institution to establish a relationship with them. Make sure you show a savings habit and do not overdraft your checking account.
- Apply for a loan that has collateral. For example, a car loan is many times easier to obtain because it is a secured loan. In the event you cannot pay, the lender can take back the security (in this case, the car). Unsecured loans, for example credit cards, are of more risk to creditors because there is rarely merchandise to take back in the event you can no longer pay.
- Obtain a cosigner for your first loan or credit card. This will establish a credit history.
- Apply for a secured credit card. Make sure you have investigated the financial institution before you send any money. Be cautious of anyone that guarantees a card but requires up-front money to process the application.
- Open a credit card at a local department store with a small balance.

### **Qualifying For Credit**

Qualifying for credit and proving that you are credit worthy will depend on your ability to repay, your assets that serve as security, and your attitude toward responsibility. In reviewing applications for credit, creditors may use a point system called credit scoring or more commonly look for what sometimes is called the C's of credit - capacity, capital, and character. These help creditors analyze their risk for approving the application for credit.

### **Capacity**

Do you have the financial capacity to take on the credit you are seeking? Creditors look at your income and your current financial obligations to determine if you have the capacity to handle the additional debt.

## **Capital**

Creditors are looking for what types of assets and resources you have. Do you have equity in your home? What is the value of your car? In determining capital, creditors are not just looking for a means of payment; they seek assurance that a debt could be paid from your assets if the need arose.

## **Character**

This is the most important aspect to the majority of creditors. What has been your responsibility in paying your other debts according to the terms of the contract? They rely on credit bureau reports to determine your character. They also verify information, provided by you on your application, to determine if you gave accurate information.