

## Are you creditworthy?

Creditworthiness can be described as the evaluation of the four C's of credit: character, capacity, collateral and credit—which help banks determine how likely and able you are to repay a loan.

**Character** shows that you are responsible through regular payment of utility bills and rent, steady employment, etc. **Capacity** is your ability to pay back the loan—is your regular income enough? The bank will also check your established **credit**, if you have any, to see if you repay what you borrow currently. Some loans require **collateral**, or backing up your loan with something you own. In the case of purchasing a home or car, the home or car would be collateral—something the bank can take away if you are unable to repay the loan.

Here are some tips for improving your four C's of credit:

- **Open a checking account and a savings account.** Applications for most forms of credit will ask for both types of accounts. Demonstrating that you can save money and manage a checking account can improve your standing as a loan candidate.
- **Open an account in your name only.** It is important to establish and maintain your individual credit history—one separate from relatives, friends and even your spouse.
- **Use retail store and gasoline credit cards, and pay them off on time.** Cards for local department stores and gas stations are easy to obtain, but be careful not to over-extend yourself.
- **Use debit cards (also known as check cards), but use them wisely.** Always write down the date and amount of your purchase in your checkbook right way because a debit card deducts the amount from your account almost immediately. There is no grace period, and you can bounce checks written on that account if you don't account for all your purchases.
- **Show stability.** Most potential creditors like to see that you have been in your residence for at least a year and that you have a consistent source of income.
- **Apply for a secured major credit card.** Your bank may be willing to give you a credit card if it is secured by a savings account. Your credit limit may be defined by how much you have in that account, and that account cannot be used for withdrawals. You may also be able to obtain a card if you demonstrate a few months of responsible use of a store or gasoline credit card.
- **Apply for a standard, unsecured bank credit card or a small loan if needed.** If you have used credit responsibly and have established a positive credit history, you improve the likelihood that a lender will extend credit to you in the future.

*These financial tips are provided by the Iowa Bankers Association (IBA), representing banks and thrifts in the state. For more information, go to [www.iowabankers.com](http://www.iowabankers.com).*