



Establishing Credit

A lender makes a decision to lend you money primarily based on three factors: capacity, character, and collateral.

Capacity is your present and future ability to pay a creditor. When they think about your capacity (ability) to pay, a lender will look at how much you already owe, how much you make, and sometimes how much you spend. In short, the lender has to believe that you have enough money to pay them.

Character is your willingness or desire to pay the lender. When a lender thinks about letting you borrow money, they have to believe that you are trustworthy. A creditor makes a decision about your character by looking at how you treated your creditors in the past, (this includes your landlord and utility companies), how long you have lived at the same place, and how long you have been employed.

Collateral is property that you pledge to creditors that can be repossessed if you fail to pay as agreed. For Ways to Work loans, this is usually your car and/or household goods. Collateral is also called security.

Creditors want to lend you money because they are in the business of lending money. Show them that you have the capacity and the character that they are looking for so they will lend you money. The following tips will help you establish credit.

- Set financial goals.
- Develop and follow a budget.
- Work at the same job for at least one year.
- Live at the same address for at least one year.
- Pay all of your other bills on time.
- Establish a checking account.
- Establish a savings account and deposit money monthly.

- Get a small balance unsecured loan and make monthly payments on time.
- Obtain a small balance secured credit card and make monthly payments on time.
- Obtain a small balance secured personal loan and make monthly payments on time.
- Obtain a gasoline credit card and pay the balance in full each month.
- Keep records (receipts, statements, insurance papers, and tax returns) for at least seven years.
- Obtain a copy of your credit bureau report once a year and make sure that the information on your credit bureau report is correct and updated.