

# CRC Bulletin

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## **How to Build a Healthy Credit History.**

Credit history is generally defined as the record of a borrower's payment behavior that shows his or her ability to repay a loan. It also includes information about late payments and bankruptcy. The significance of credit history lies in the fact that it acts as an important parameter for approval of loans by banks and financial institutions. A healthy credit history is in fact an intangible asset created by an individual which remains a life-long companion. In an era when credit bureaus are growing and influencing credit decisions of banks and financial institutions, it is important to maintain a healthy credit history. Even if we ignore the need for a good credit history exclusively for the purpose of borrowing, building a good credit history still remains important as credit behavior shows our approach towards managing our expenses and building a strong financial base.

While building healthy credit history is important, also important is to know how to build a healthy credit history. The following steps are extremely important in building healthy credit, which we must follow.

### ➤ **CUT YOUR CLOTH ACCORDING TO YOUR COAT.**

This old saying can act as a panacea for overcoming any issue in credit history. The saying gives a very important message which is, one should never borrow more than the ability to pay back the loan. People generally get tempted by offers which are given by banks and financial institutions in form of various offers that are generally given at the time of borrowing of money. In some cases people even manage to borrow beyond 50% of earning capacity by taking personal loans and loans on credit cards

Even in cases where there are no rules for what the maximum borrowing that an individual should do, one should try to make attempts in order to ensure that after paying equated monthly installments, sufficient funds are left to meet monthly expenses

and also generate some amount of savings every month. The moment you stretch your borrowing limits to an unmanageable limit, any adverse scenario can create a black spot in the credit history which is known as "*delinquency*". Logically speaking, one's borrowing limit should not exceed more than 40% of the net income.

### ➤ **CHECK YOUR CREDIT HISTORY**

It is suggested that every individual should check his/her credit history by obtaining credit report from credit bureaus. The reports from credit bureau carry details of your credit history. Though the reports come at a cost, it makes sense to go for these reports. If anything adverse is found in the credit history, you should try to resolve the issue found in the credit history rather than ignoring the discrepancies. Also check your own credit report, as it helps you to avoid any last minute surprises which can come your way when you go and borrow from a bank.

### ➤ **NEVER BORROW FOR CONSUMPTION, BORROW ONLY FOR ASSET CREATION**

The golden rule for borrowing is that borrowing should only be done for asset creation and not for personal consumption unless you have substantial disposable income. This is also a lesson to avoid impulsive buying. These days people often get carried away by demonstration effect and end up spending more than what is desired. Many times, such expenses are made on a credit card, which should be avoided at all stages. This will help create a healthy credit history as you will not have any undesirable credit transaction happening in your credit record.

### ➤ **PAY BILLS ON TIME**

Once you become eligible for a credit facility, endeavor to pay each installment promptly and in full. To make sure you actually repay, don't borrow too much, only charge on your account the amount you can actually repay, and try to keep your balance at 40% or less of your credit limit.