

How banks decide whom to give a credit card

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Credit cards are an excellent tool for making payments. (Illustration: Shyam)

Credit cards are an excellent tool for making payments. However, banks do not approve all credit card applications. They consider multiple factors while deciding whether to approve card applications. Here are some factors along with a solution for those who fail to get a regular credit card.

Credit score

Credit card issuers consider credit scores while approving credit card applications. As credit bureaus calculate credit score on the basis of your past repayment behaviour, card issuer(s) use your credit score to judge your creditworthiness. Usually, those with credit scores of 750 and above have higher chances of credit card approval. Remember, many credit card issuers avoid issuing credit cards to those without credit history. Thus, always ensure timely repayments of your credit card bills to maintain a good credit score. Also fetch your credit reports at periodic intervals and report the errors, if any, to the lenders and credit bureaus for rectification. Avoid using more than 30-40% of your total credit limit as doing so will reduce your credit score. Also, monitor the loans guaranteed or co-borrowed by you as any delay or default in their repayment would adversely impact your credit score too.

Income

If you fail to meet the monthly income criterion, your credit card application will be rejected outright even if you successfully meet other eligibility conditions. However, this criterion would vary within the same card issuer depending on the card type. Cards with higher benefits have higher monthly income requirements.

Occupation

Your occupation will play a major role in the approval of your credit card application. Usually, salaried people have higher chances of credit card approval than self-employed people as the former has comparatively steady cash inflow than the latter.

Employees of less-known companies and financially-distressed companies are not preferred as the financial failure of such companies may adversely impact the repayment capacity of their employees.

Location

The location of the applicant also impacts the approval of his card application. Banks list certain areas within their service areas as 'negative areas' or 'black-listed areas'. Credit card applications received from such negative or black-listed areas may get rejected even if the applicants score well on other parameters.

Opt for secured credit card

Those who fail to get a credit card due to eligibility concerns can opt for secured credit cards. Banks issue secured credit cards by using bank fixed deposits opened with them as collateral. Given that banks can close fixed deposits in case of any default, they are usually open to issuing such cards, irrespective of one's monthly income, location, job profile or credit score.

Secured credit cards are also an excellent way to build or repair your credit history. The transactions routed through these cards are equivalent of taking loans as the bank finances those transactions till their date of repayment. Hence, secured credit card transactions are also considered while calculating credit scores. Thus, credit card applicants rejected due to poor credit history or absence of it can use these cards to improve or build their credit scores and then apply fresh for regular credit card.

Meanwhile, those living in areas unserved by credit card issuers or having low monthly income can use secured credit cards for building their credit history and future loan eligibility.

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