Bank Credit

Bank credit is the aggregate amount of credit available to a person or business from a banking institution. It is the total amount of funds financial institutions provide to an individual or business. A business or individual's bank credit depends on the borrower's ability to repay and the total amount of credit available in the banking institution.

**Next Up**

**BREAKING DOWN 'Bank Credit'**

Bank credit for individuals has grown immensely over the past 50 years, as consumers have become accustomed to having multiple credit cards. Some experts predicted that the 2008 financial crisis was a red flag that meant a return to previous years, when credit, although relatively inexpensive, was difficult to obtain, especially for people with poor credit histories.

Bank credit is an agreement between banks and borrowers where banks trust a borrower to repay funds plus interest for either a loan, credit card or line of credit at a later date. It is money banks lend or have already lent to customers.

Bank credit is the total borrowing capacity banks provide to borrowers. It allows borrowers to buy goods or services. However, it requires a fixed minimum monthly payment for a specified period. For example, the most common form of bank credit is a bank credit card. Borrowers start with a zero balance and use the card to make transactions. The borrower pays off the balance and borrows again until the credit limit is reached.

**Bank Credit Approval**

Bank credit approval is dependent upon a borrower’s credit rating and
income or other factors such as assets, collateral or total existing debt obligations. There are several ways to ensure approval, such as reducing the total debt-to-income ratio. An acceptable debt-to-income ratio is 36%; however, 28% is ideal. Borrowers ought to keep card balances at 20% or less of the credit limit and pay off all late accounts. However, banks offer credit to borrowers with poor credit histories with terms that are the most favorable to the banks but the least favorable to borrowers.

**Fees**

Bank credit comes at a cost. The cost and terms vary by bank, credit type, the borrower’s credit rating and the purpose of the funds. There are two types of bank credit secured and unsecured. Both have different requirements, fees, interest rates, terms and conditions and regulations. Fees include the amount borrowed plus interest and other charges. Some fees are mandatory, such as interest rates; some are optional, such as credit insurance; and some are event-driven, such as late payment fees.

**Business Credit**

Many businesses need business funding to pay startup costs, to pay for goods and services or supplement cash flow. As a result, startups or small businesses use bank credit as short-term financing.