

Qualifying for Credit courtesy of AICCCA member American Financial Solutions



Banks evaluate customers who are seeking loans. There are five characteristics that banks and other financial institutions examine in deciding who qualifies for a loan. These are the five C's of Credit; Character, Credit capacity, Capital, Collateral, and Conditions.

1. **Character** might include personal characteristics like consistency, stability, and standing in the community and usually includes credit history, banking history, and length of time at your current residence.
2. **Credit capacity** is an evaluation of your current income and expenses. In order to be eligible for more debt you must prove that your current income is both stable and of a sufficient amount to allow for additional borrowing. In addition, your expenses must not exceed an acceptable debt-to-income ratio.
3. **Capital** consists of the amount of your own money you plan to invest in the purchase and assets you may already own that could be sold to pay off debts in an emergency. The existence of real estate, stock investments, retirement plan or IRA, and additional bank accounts makes you a more desirable loan candidate.
4. **Collateral** consists of assets (the things you own) you pledge in case the loan cannot be paid. Sometimes people pledge their home or their automobiles as collateral for the loan. In the event you do not pay, the lender will sell the collateral to repay the loan.
5. **Conditions** that may exist or be emerging are situations like the state of the economy, interest rate fluctuations, aspects of your credit history, credit report or score, work history, or other miscellaneous factors.