

The Five C's of Credit

Character

The member's reputation is the traditional criterion credit unions use to judge the member. We use all available information, the loan application, the credit union's files, credit report, and personal knowledge – to help you judge the person's character.

Capacity

Considering total monthly income and amount of debt, is the member able to repay the loan on schedule? Calculate the member's debt ratio by dividing the total monthly debt (rent or mortgage payments, credit card and other loan payments, obligations such as child support and alimony, etc.) by gross monthly income (income before taxes).

Collateral

By itself, collateral is unimportant. If the applicant's constitute a good loan. But if, for instance, character is excellent while capacity is marginal, collateral can sometimes support an approval.

Capital Accumulation

Has the member made steady-even if slow growth in assets, or is every penny earned immediately spent? The answer to that question can help determine the member's character.

Circumstances or Economic Conditions

Extenuating circumstance can affect the member's ability to meet a new financial obligation. Therefore the committee must be aware of local and national events that may indicate such factors as a strike or layoff, and such personal circumstances as illness in the family.