



The Six “C’s” of Credit

A person who is considered a good credit risk usually meets six basic qualifications. These qualifications include character (credit reputation), capacity, capital, conditions, collateral, and common sense.

CHARACTER (Credit Reputation)...A person with a good character is one who willingly and responsibly lives up to agreements. One distinctive sign of a good character is a responsible attitude toward paying bills and meeting obligations on time.

CAPACITY...The ability to repay a loan or make payments on merchandise with present income is known as capacity. Creditors want to make certain that you will have enough money left over each month after other fixed expenses have been met to pay your credit debts.

CAPITAL...Property and other assets that total more than debts are known as capital. In other words, when you add up all that you own (assets) and subtract all that you owe (liabilities), the difference (your net worth or **capital**) should be sufficient to ensure payment of another bill.

CONDITIONS...All other existing debts, stability of employment, personal factors, and other factors that might affect a person’s ability or desire to meet financial obligations are important conditions to be considered. For example, a person who has moved six times during the past year might not be considered a good risk because of living conditions that indicate some type of problem.

COLLATERAL...Property or possessions that can be mortgaged or used as security for payment of a debt are known as collateral. If a debt is not paid as agreed, the collateral is repossessed and sold to pay the debt.

COMMON SENSE...A person’s inner ability to make wise decisions is often referred to as common sense. A loan officer or credit manager would determine that you have good common sense based on how you answer questions (either orally or in writing). Good decisions are reflected in answers such as reasons for leaving employment, number and types of credit cards and balances outstanding, or references listed on an application.

If a credit applicant meets all six of the above qualifications, he or she is considered worthy of credit. The applicant has shown a willingness and ability to pay bills in an acceptable and responsible manner.