CRC Credit Bureau Limited
In association with Dun & Bradstreet

CRC Bulletin
A Publication of CRC Credit Bureau Limited
www.crccreditbureau.com
Release No. 26, 1st September 2015.

E-NEWSLETTER

HOW LENDERS DETERMINE YOUR CREDITWORTHINESS

In general, a person or company's ability to secure a loan depends on the confidence that the lender has in their creditworthiness. Creditworthiness — which has to do with the borrower's ability and willingness to pay — is one of many factors defining a lender's credit policies. Creditors and lenders utilize a number of financial tools to evaluate the credit worthiness of a potential borrower.

Lenders must evaluate the risks of lending money to other individuals/organizations. A creditor usually looks at five factors: capacity, collateral, capital, conditions, and character.

***Capacity**: The present and future ability to meet your financial obligations. Some of the areas examined would be your source of income, work history and the amount of debt that you already owe.

***Collateral**: The money that comes into your account is the primary source for the repayment of a loan, but collateral also provides lenders with a secondary source of repayment. So, if it happens that one is unable to repay the loan, the collateral, which can be tangible items like a house or car, will be taken by the lender, to offset the loan.

***Capital**: Capital is the money that shareholders have personally invested in the business. It represents the assets that business owners have at risk should the business fail. Even if you are not required to post collateral, many creditors express a preference that you have assets other than income that could be used to repay a loan. Also, a high debt-to-equity ratio indicates that the company already has a high level of loans and could be a high credit risk.

***Conditions**: This has to do with factors on ground when someone is applying for a loan. When you apply for a loan, the lender takes into account the economic climate of the country, for example. If the economy is bad, one may not make the gain they hope to make, and that will affect the repayment of the loans. The lender also looks at the intended purpose of the loan. For example, if you are applying for a loan to finance a ceremony, it will be viewed differently than if you need the loan to start a business.

***Character**: This boils down to trustworthiness, always measured by promptness in paying your existing loans, other credits facilities taken, and your credit history.

However, an applicant's capacity and willingness to pay tops all other criteria lenders consider during loan application processing. To determine this in borrowers, with enough relevant information and without any bias, lenders use the *Credit Report,* with credit scores.

A *Credit Report* is a record containing detailed information on a person's credit history, including identity information, credit accounts and loans, bankruptcies and late payments, and recent enquires. It is a summary of your financial history, hence potential lenders will use it to evaluate whether you are a good credit risk.

Furthermore, a *Credit Report* shows the financial responsibility of borrowers using key indicators such as "Principal Overdue", "Interest Overdue", "Account Balance", "Principal Outstanding", "Interest Outstanding" and "Number of Days Overdue" among others. These financial positions tell the status of facilities reported on a borrower and depict how the borrower is likely to behave on a new loan. All lenders have to do to determine the creditworthiness of applicants is request for these reports from credit bureaus, analyze the mentioned indicators and decide whether to grant the loan or not.