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Five C's of credit is an effective method used by lenders to rate the worthiness of borrowers. 5 C's are the very important for a lender as well as borrower to have before acquiring credit or to borrow money as it tells lender how much sincere the borrower is and if borrower is good in 5 C's then he/she can get attractive interest rates. So, what this 5C stands for? 5C stands for Character, Capacity, Capital, Collateral and Conditions.

Character: It also refers to as borrower's credit history. How much the borrower is sincere in repaying his debts? It tells the previous record of borrower's credit information like how the borrower manages his credits and how the borrower makes payment? Credit reporting companies make the character records of borrower and it may vary from one credit reporting company to another. Moreover, lenders also see to the credit score which is generated by software, developed by Fair Isaac Corporation (Fico). The score is known as FICO score and it ranges from 300 to 850, higher score means less risk and better interest rates and vice-versa. (" Know what lenders look for")

Capacity: Capacity is the factor which helps lender to know financial capacity of the borrower to repay the loan. It helps lender to know past income and history of employment of the borrower so as to ensure that borrower can repay debts or not. (" Know what lenders look for")

Capital: Savings, investments and other assets adds up to the capital which helps the borrower to repay the loan if the borrower loses his job or face any other financial issue. Lenders assure that you have enough capital so that in some financial crisis borrower can repay the loan.

Collateral: Collateral the asset such as home or any other asset that you can

pledge as a guarantee to the lender and then lender calculate the value of the asset and then in lending decision the value of asset calculated will play a factor.

Conditions: Conditions refers to how the borrower plans to repay the loans like number of instalments. Also, lenders want to know the purpose of the loan like the loan money is used to purchase vehicle, home or any other asset or is used for some other purpose.

However 5C's credit plays an important and beneficial role between lender and borrower and you as a middleman management, it will play an important role for you also. Now you by analysing 5C's of credit you can easily rate the borrower and you can reject the unnecessary client and you can show up good quality clients to your lender.

Hence, 5C' of credit plays an important role in building the relationship between lender and borrower as by evaluating 5C's of credit, lender ensures that the borrower will repay debts or not if lender give borrower debt.

References

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