

**How Creditors Measure Your Credit Rating *by Omar M. Omar***

Creditors will measure your credit rating based on the following three main things.

1. Capacity
2. Collateral
3. Character

The three "C's" show creditors your:

"Capacity" or income to pay the debt  
"Collateral" or assets to secure the obligation  
"Character" shows your compliance to repay the debt

1. Capacity

The very first question is whether you have sufficient income to repay the debt. Creditors will definitely check to see if your income exceeds your expenses so that you can comfortably pay the debt. A creditor will then want to know:

Your income - from all sources  
Your fixed expenses  
Your other debts

The amount remaining from your total net income, after deducting your fixed monthly expenses and other debts, is your capacity. If your net income is \$3,000 a month and your total living expenses is \$2,500, then your credit capacity is an amount that requires no more than \$500 in monthly payments.

If you now pay \$400 a month for other credit obligations, then your remaining capacity is a \$100 a month, and a creditor should extend you that amount of credit.

There are three techniques that will allow you to maximize your income:

Increase your income  
Decrease your expenses (easier to do than the first one)  
Reduce your other debts

2. Collateral

A lender or creditor can be secured or unsecured. Secured lenders hold a lien against specific assets, such as real estate, an automobile, or boat. If you fail to pay, the secured lender can sell the pledged asset to recover debt owed. Secured lenders seldom loan more than the auction value of the collateral.

Secured credit, is an almost guaranteed way to rebuild your credit. Even with poor credit, a lender may advance your credit if you can secure the credit with a lien against some valuable asset. Many creditors extend credit entirely on the strength of the pledged assets.

Other credit considerations are either ignored or carry comparatively little weight in the credit decision.

What can you use as a collateral to secure your debts and rebuild your credit? You may be appreciably wealthier than you think. Add the value of your various assets (property that you own) and subtract any existing mortgages or liens against those assets. The difference is your equity or net worth in the asset.

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This is what you have available to secure a loan. Do not overlook any asset:

Home  
Investment real estate  
Stocks, bonds, mutual funds,  
Automobile  
Boats, planes, recreational vehicles  
Notes and mortgages due you  
Art, jewelry, antiques  
Pensions, IRAs, and Keoghs  
Royalty income  
Income from trusts

You may have other assets to pledge. The point is that collateral gives you a borrowing power approximately equal to your equity in your assets. Regardless of your credit history, if you have collateral worth a solid \$100,000, you should be able to borrow close to that amount.

### 3. Character

Creditors next consider your character. How important this is depends upon the type of credit, and who your creditors are. Asset based lenders rely chiefly on collateral, and they are less concerned with your character than are unsecured creditors who can only rely on your prior reliability for honoring your obligations.

When creditors check your character, they basically look at how you satisfied your past obligations. Meaning they want to know:

How many credit defaults have you had? What was the reason for the defaults? How recent are they?

Do you own your own home?

If you rent, for how long have you rented the same apartment or house?

Do you have a checking account?

Do you have a savings account with regular deposits?

Do you have a payroll savings plan at work?

Do you have a telephone in your own name?

Do you have a criminal record?

Have you filed bankruptcy?

Positive answers to these nine questions will often offset an otherwise negative credit report. Basically your credit character boils down to your credit history in the past. In the eyes of creditors, if your past credit character is good, there is no reason to believe why your future won't look promising.

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### **About the Author**

Omar M. Omar is the owner of <http://www.deleteuglycredit.com>. The website is dedicated to provide credit consumers with information about their credit right and how to dispute inaccurate information on their credit report. Omar M. Omar is also the author of "The Credit Repair Bible" book.

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