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# Credit or character: Which is more important to lender

As we all have experienced, traditional lenders have rigid guidelines upon which loans are approved based on the above items. For example a traditional lender has a credit score minimum, debt-to-income ratio (capacity), and an LTV minimum typically based on an MAI appraisal. There is little if any variation in these criteria. In a bank's eyes, many times a loan either fits the box or is unable to be funded. In today's lending environment, many loans are falling into the unfunded category.

A private lender on the other hand typically has a much greater ability to fund a transaction that does not fit traditional guidelines. I'm typically asked: How does a private lender underwrite a loan by not following the same guidelines as a traditional bank? Private lenders, like myself, actually do utilize the three Cs plus the fourth C, but interpret this information radically differently than a traditional lender.

In the eyes of the private lender, the three C's are critical along with the story behind each. First, in regard to credit, I do not have a minimum credit score. We pull the credit of every borrower to understand what has caused the credit score to be what it is. For example, we funded a transaction for a borrower on a commercial property who had a credit score in the 400s. It turns out the borrower up to about a year ago had flawless credit; he co-signed on a note for his son-in-law (who never made a payment on a loan) and collections were filed against our borrower. This borrower definitely could not get a conventional loan due to his credit score, yet he has been a great borrower since the loan was closed and has never had a late payment. This is just one example of where a low credit score clearly does not equate to a borrower not being creditworthy.

**Glen Weinberg**
Chief operating officer, Fariview Commercial Lending, Denver

This leads into the second C of lending: capacity. Traditional lenders have a minimum debt-to-income ratio on a borrower/property. Unfortunately this calculation does not take into account the true picture of a borrower's repayment ability. For example, if a borrower is in the process of repositioning a property or his business, the income numbers likely will be below normal. For example, I recently closed a transaction on a retail center in Denver. The borrower had lost a huge tenant and needed funds to reposition the property. I was able to understand the borrower's plan and made a loan to help put the plan into motion. The borrower subsequently was able to land a large credit tenant.

The third C of lending is collateral. A private lender is similar to a traditional lender in some respects regarding collateral. Most private lenders have a minimum loan to value (typically 50 percent to 60 percent). As a private lender, we typically do not exceed our LTV threshold. We physically look at every property we lend on in order to fully assess a property's value. A private lender is able to do loans outside the box as long as the collateral is solid.

The final C, what I call the fourth C, is character. We make it a rule to meet every borrower and fully understand each situation. I have found that credit can be a very poor indicator of character on a borrower. For me, character along with collateral is my primary lending criteria. I have passed on many loans when I was not comfortable with the borrower.

Although the three C's are critically important for both private and traditional lenders, they can be interpreted very differently. A private lender also heavily emphasizes the softer side of lending, character. I have found that behind every situation there is a story that needs to be understood by the lender. Ultimately a credit score does not tell the full story; I consider the fourth C, character, to be a much stronger indicator of loan success than credit.▲