

# 5 C's of CREDIT

## CHARACTER

The evaluation of qualities that would impel the borrower to repay the loan. ie. reputation, responsibilities, integrity.

Credit report (TRW, D&B)

Resume, biographical summary or list of related work experience

References: Business associates                      Suppliers  
                  CPA's    Lawyers  
                  Customers    Bank references

## CASH FLOW

The evaluation of the borrower's ability to produce sufficient cash to repay the loan. Cash flow is usually the primary source of repayment.

Financial statements

Financial projections

Statement of sources and uses

Historical and projected/adjusted cash flow analysis

## CAPITAL

The evaluation of the adequacy of the resources that the borrower has at the time and in the future (when payment on the loan is due) to support operations needed to generate cash to repay the loan.

Balance sheet

Amount invested by the owners and/or shareholders

Net worth of the business

Leverage

Capitalization of the business

## CONDITIONS

The evaluation of the internal and external conditions associated with the borrowers environment that could impact their ability to repay the loan.

Internal Conditions:

Financial analysis

Operations

Ratio analysis

Management profile

External Conditions:

Regulations

Economy

Industry

Market

FINANCIAL

**COLLATERAL**

The evaluation of real or personal property that can be pledged to secure a secondary source of repayment for the loan. The emphasis is on determining the retainage value of the asset over the life of the loan. What will the asset be worth if you need repay the loan, not just today's worth.

Accounts receivable  
Inventory  
Marketable securities  
Machinery & Equipment  
Real Estate

Audit or review, financial statement  
Valuation, audit, financial statement  
Market price as published by the stock exchange  
Appraisals, cost, financial statements  
Appraisals, evaluation, comparable, financial statements