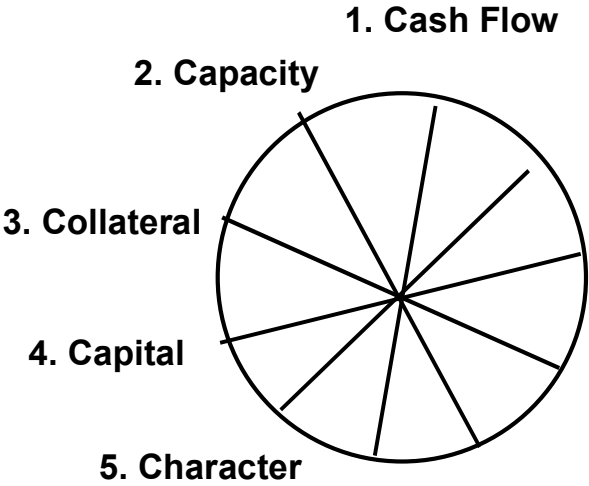


The 5 C's of Credit:

**How Bankers Work,
Risk Based Decision Making**

The Risk Wheel:

The five 5 Cs form spokes the more spokes & the stronger they are, the greater confidence in the wheel.



Banker's have biases, and also rules. Understanding where "they are coming from" increases chances for success.

Fill in the column yourself

Description	How to Document it?	Credit Analysis Questions
1. CASH FLOW Ability of borrower to repay the loan, given their other obligations.	<ul style="list-style-type: none"> • Cash Flow adjusted with add-backs (actual cash), Historical & projections • Breakeven analysis • Debt to income ratio • Debt Service Coverage 	
2. CAPACITY Ability of borrower to achieve performance, as with running a business	<ul style="list-style-type: none"> • Resumes of owners • Resumes of key staff • Business plan • Requisite industry skill 	
3. COLLATERAL (#5 for some) Ability of loan to be recovered through hard assets; <u>always</u> secondary source of repayment	<ul style="list-style-type: none"> • Liquidation coverage ratio (not cash value), ie vehicles are 75% • Document asset; verify ownership & value 	
4. CAPITAL Does the borrower have adequate capital in the business and sufficient equity to quality?	<ul style="list-style-type: none"> • Balance Sheet Analysis • How much money is put in this already? • Debt / Equity ratio • Type of equity 	
5. CHARACTER Will the borrower repay the loan?	<ul style="list-style-type: none"> • Credit Reports • Payment history • Stated assets • References / Guarantors 	