

The 18 'C's of Credit Assessment – Basic Considerations

Banking life has changed – probably forever. We need to understand how banks will view client's applications for funding in the future. The following note is very simplistic – but gives a good overview.

The traditional approach of the four C's provided a straightforward methodology to arrive at the lending decision. The **Character** of the borrower, the **Capital** required, the **Capacity** to repay and **Collateral** against the loan were all examined. Essentially the lender just needed to be clear as to who the borrower was, how the business operated, how much funding was needed and finally, how much was to be repaid and under what conditions.

We have always gone that bit further so as (a) we understand our client's needs (b) we can advise the client if the project is realistic and (c) we can make successful – and only successful – applications to banks for funding. It is opportune to list the basis of our applications – and in so doing expand the four C's into eighteen C's. An understanding of the items listed will help us understand what bank presentations should comprise henceforth.

Who is the borrower?

1. **Character /Culture** - assess the integrity of the Borrower / industry. Risk assessment.
2. **Competence** - an ability to produce a well positioned product + demonstrate the business acumen to deliver a profit from the business.
3. **Continuity of Management** – Sufficient safeguards in place to protect against loss of a key individual(s)?
4. **Corporate Constitution** – Clear group structure.

What kind of business?

5. **Customers and Competition** - Appreciate the markets and prevailing conditions.
6. **Controls Over Costs and Cash** – These are key issues when sales are not growing / falling
7. **Capacity to Contract** – Business should have sufficient diversification to counteract their exposure.
8. **Credibility of Accounts** – Audited accounts should be reliable, easily interpreted and provide clarity.

How much?

9. **Cause or Purpose & Term of Loan** – Analysis of risk involved. Does it make realistic sense.
10. **Capital Required in Total** – A prudent approach to cost estimates should be adopted.
11. **Capital Contribution of the Bank** – Available funds will be governed by the banks commitment to the sector, the maximum it will lend to a single borrower and the equity level matched by the borrower.
12. **Contribution to Bank Profits** – Higher risk = higher interest / reward to the bank. Need to build into projections

Repayment?

13. **Commitments** – Clarity on the existing commitments of borrowers to assess the likelihood of repayment.
14. **Contingencies** – Repayment schedules should cover all eventualities, inc crystallisation of contingent liabilities.
15. **Comprehensive Cashflow Projections** – should reflect risks and prove ability to repay all loans.
16. **Current Trading** – Good quality management accounts and systems to produce them.

What Terms?

17. **Conditions of Drawdown** – renewed focus will be to ensure security is completed before funds are drawn.
18. **Continuing Covenants** – Borrowers will need to be demonstrate that they are able to satisfy covenants on issues such profitability, gearing and liquidity on continuing basis.