

## 5.0 Credit Assessment: The 5 Cs of Credit

The **5Cs of Credit** that must be considered in lending are:

- (i) Character
- (ii) Capacity
- (iii) Capital
- (iv) Condition and
- (v) Credit worthiness

### **(i) Character**

The term "Character" implies credit characters related to the qualities of individuals which make him conscious of the debt obligations. These characters include the borrowers' moral characters like honesty, integrity, sense of responsibility and trustworthiness.

It is one of the basic cornerstones in assessing the risk-bearing ability of the borrower. Borrowers with highly rated credit character can withstand unforeseen events and save themselves insolvency. A borrower noted for timely repayment shows a reflection of an ideal credit character. Character is also correlated with the returns and repayment capacities of the borrowers.

### **(ii) Capacity**

Shows the capacity of the borrower to pay his debts as at when due. Since payments often depend in part on income, the capacities of borrowers to pay will depend on the income rather than on savings.

### **(iii) Capital**

Capital refers to the equity or net worth of a farm business. It assures that funds are available to repay loans if character, capacity prove to be inadequate. Capital also represents one of the cornerstones for measuring the risk bearing ability of the borrower.

### **(iv) Condition**

Also signifies the financial conditions of the borrower which has direct relevance with the risk bearing ability as well.

**(v) Credit worthiness**