



A California Statewide Collaborative

WHAT DOES A LENDER LOOK FOR? **THE 5 C'S of LENDING**

The bottom line of lending is Repayment Capability. In other words, Lenders will only consider lending if they are confident that your agency will be able to repay the loan on the designated terms. The 5C's of lending are the main criteria by which a Lender will judge an application for a loan. They are:

1. Cash flow (Capacity to Repay the loan)

- Will an agency be able to meet its monthly payments?
- This information is typically determined by debt service coverage ratio (see Glossary of Terms).

2. Character (Capacity to Execute the Project Successfully)

- Does the Borrower have a sound vision and a clear business plan?
- Is there leadership and technical capacity to execute that plan?
- Lenders will typically analyze agency leadership (staff and board) and the experience of the development team (consultants, architect, contractor).

3. Capital (Equity Investment in the Project)

- What agency dollars are invested?
- What other equity sources are invested?
- What percent of the total cost will be covered by the agency's equity?
- Lenders typically look for a significant investment by the agency or the individual applying for the loan.

4. Collateral

- What is the value of the property being pledged for repayment of the loan?
- Lenders typically commission appraisals of property or other assets.
- Most Lenders have policies regarding loan to value ratios (see Glossary of Terms). For example, they will only lend 80% of the value.

5. Credit History

- What is the credit history of the agency, owners, or guarantors, if any?
- Credit reports are available on nonprofit and for profit agencies and will be reviewed.
- Lenders will look at past performance carefully.