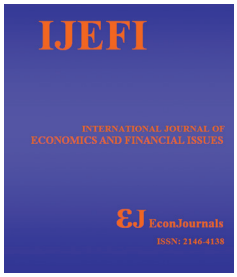

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Assessment of the Five Cs of Credit in the Lending Requirements of the Nigerian Commercial Banks

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ABSTRACT

Credit evaluation and decision like any investment decision requires utmost due diligence from the decision makers to avoid high default rates. It is expected of the lender to apply caution all the way by eliminating all forms of asymmetry information that could lead to adverse selection and non-performing loans. To avoid adverse selection and high default rates that could jeopardize the lender's going concern and profitability, caution is the silent C emedded in the five Cs of credit. The study administered a structured questionnaire to all the Nigerian banks that survived the 2005 recapitalization era and were still in operations at the time of this study. While the structured questions required the respondents to rank the five Cs of credit based on the importance their credit policy and practice attached to them, the hypothesis tested centred on the impacts of the Cs of credit on risk asset quality. The qualitative data were also analyzed using a module of the SPSS statistical software. The study observed that all the Cs of credit have a direct and significant correlation with the asset quality (non-performing loan ratio). The study recommended that *Caution* which it considered as a slient C of credit embedded in the five Cs and the only C provided by the lender should be the watchword throughout the credit risk management process. It imay be pertinent to also note that while the traditional five Cs (character, capacity, capital, collateral and conditions) are required from the borrower, the caution is required from the lender as a check on traditional five Cs.

Keywords: Credit Evaluation, Lending, Non-performing Loans, Five Cs of Credit
Jel Classifications: A20, B31, E51, G21, N20, 016

1. INTRODUCTION

One of the major drivers of the economy is funding. Every sector of the economy requires funding from both the private and the public sector. The major and common source of funding in the private sector is the extension of credits through lending activities. Credit is described as a transaction between two parties whereby a party known as the creditor or lender provides finance or the equivalent of goods and/or services to the other party known as a debtor or borrower in return for a promise of future payment to the lender (Basel Committee on Banking Supervision, 1999). Credit is an economic stimulant for every business that desires to maximize shareholders' wealth in the midst of scarce economic resources. Capital as one of the factors of production is required to fund land and labour while the entrepreneur waits for his reward in the form of profit or loss at the end of the business period. Funding is most essential, yet not always available from the shareholders in the amounts required. In cases where the shareholders are separated from the management, this may cause agency problems as the shareholders may not be willing to provide the required funding promptly. Credits in the form of loan facilities, trades, prepayments and bills for collection may be the easy and quick way to address the funding requirements.

Aside from the quicker funds that credits could provide to businesses, the pecking order theory argues that it is cheaper to use credits rather than equity to fund businesses. However, the providers of the credits are also not absolved in the agency problems facing the shareholders for being excluded from the control of the business. Besides, the providers are holding

the resources in trust and at a cost for depositors, their own shareholders and lenders who would not only expect that assets to be insulated against any loss but expect them to grow at a rate that would compensate for the time value of money, associated risks, cost of operations and extrinsic spread.

The banking system has suffered losses from its non-performing loans which has led to some banks being foreclosed, merged or acquired by stronger ones. Governments and regulators in the financial and banking system have made efforts to strengthen regulations guiding the banks especially with the creation, impairment and recovery of risk assets. In fact, the World Bank (2019) which has described the non-performing loans (NPL) ratio as an objective measure of the health of the lender has observed a continuous increase in the ratio in some European and sub-Saharan African economies which not only poses a danger to the banking sector but also the affected economies. The World Bank reports observed that the NPL ratio in Ukraine grew from 4% in 2008 to almost 55% in 2017, Greece increased from about 5-46% between 2008 and 2018. Similarly, according to the report Ghana and Nigeria NPL ratios increased from about 7% for each of the two countries to about 22% and 15% respectively between 2008 and 2017. Only Afghanistan and Zambia recorded an improvement in their NPL ratios between the periods. Deloitte (2019) argues that the non-performing ratio which is a reflection of the default rates has direct if not proportional relationship with changes in macroeconomic variables especially the lending interest rate and the business environment. The age-long and widely accepted principles of credits are the five Cs' of credits which several studies identified as character, capacity, capital, conditions and collateral (Manurung and Manurung, 2019; Kegninkeu, 2018; Owusu-Dankwa and Badu, 2013; Njeru et al., 2012). It is presumed that a careful analysis of the five Cs which Kaur and Chopra (2019) argued are the basic components of credit risk assessment by any lender whichwould assist to determine a credible borrower and the appropriate pricing for the risks associated with the lending activities.

It is pertinent to note that credit is not constrained to banking activities alone rather it cut across several other sectors. This implies that credit takes different forms aside from the borrowing and lending activities that are commonly associated with credit. For instance, delayed payments, prepayments, mobilization payments, bills for collection, letters of credit amongst others. In fact, Kabir et al. (2010) made some classifications of risk. They argued that credit has two broad categories of funded and unfunded. The funded credits involved direct cash flows and include loans, overdrafts, discounted bills, purchased cheques, consumer loans, microcredits, lease financing, hire purchase, and import and export financing. On the other hand, the unfunded credits are deferred cash flows and these include, credit sales, deferred taxes, letters of credit, performance bonds and credit guarantees.

Regardless of the form of credits and the sector it is required, the default risk which is the likelihood that the borrower would not be able to fulfil the required obligations to the lender as and when due need to be carefully considered ahead of time. The assessment of the intending borrower's capacity and willingness to fulfill the required obligations to the lender require a set of information and processes. The depth of the information and processes required for the lender to make an objective assessment of the borrower differ based on the amount of borrower's background and credit information available, the assessment process and methodology and the lender's risk appetite amongst others. This study is aimed at examining the emphasis the lenders place on the five Cs of the credits and how they were ranked in the credit decision making process.

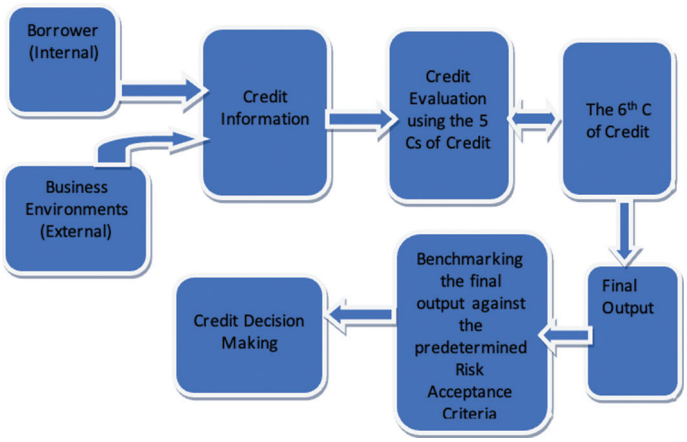
2. CONCEPTUAL FRAMEWORK

Credits have the capacity to cause growth for the lenders and the borrowers while stimulating national growth and development of the economy (Galac, 2001). As laudable as the benefits of credits are to all the stakeholders, they have also accounted for the collapse of businesses, and industries and impaired the nation's growth and development. According to Alobari, et al. (2018), the soundness and profitability or otherwise of the banking industry where most of the credit and lending activities domicile depend on the quality credit management system embraced by the industry.

Credit risk which also means the likelihood of default by the borrower is the major concern for credit analysis which according to Abdullahi (2013) is the perceived risk attributable to the promoters, the business itself and its operating environment. Therefore, for credit analysis the lenders require some basic information about the business and the promoters. Such information includes background information, credit history, industry information, business cash flow projections, management and ownership. The final output of the processed information is used to measure the ability of the intended lender to meet the five Cs of credit which "form" the basis for credit decisions as depicted in Figure 1 below.

Credit evaluation process requires due diligence as an expression of caution in the application of the five Cs of the credit model to the credit information. The credit evaluation process commences with information gathering from the prospective borrower (business, promoters, management team, etc.) and the business environments (industry, sector, national and global environments). The credit

Figure 1: Integration of caution as the 6th C of credit into the credit evaluation process



Source: Author (2020)

information which is expected to be obtained in pre-prescribed formats is thereafter subjected to the credit evaluation model of the five Cs of credit where caution is the silent component in each of the Cs. This would be expected to improve the quality of risk assets by lowering the non-performing (NPL) ratio of the lenders.

3. LITERATURE REVIEW

The provisions and sustenance of credits to the core sectors of the economy are bound to general multiplier effects of growth and development in the economy. However, Purohit et al. (2012) observed that whether the effects of credits and lending to the economy and the banking would be positive or otherwise depends on the ability of the credit officers to conduct proper and objective credit evaluation which they claimed to be a major challenge for many banks across the globe. The inability of credit officers to evaluate credits objectively is not unconnected in most instances to the quality of the information at their disposal. There is a natural information asymmetry between the borrower and the lender which Keme and Kerongo (2014) opine would increase the cost of lending (Nyoni, 2018; Crawford et al., 2018, Ofonyelu, 2013). The borrower naturally knows and owns more information about the business than the lender and would most likely provide information that would favour the approval of the loan by the lender. According to Claus (2010), the presence of asymmetry information between the lenders and the borrowers is due to the fact that the borrowers possess more quality information about their businesses, markets, corporate governance, management, market forecast, cash flows and business model than the lenders though the effect is more pronounced in small open economies than in larger closed economies. However, Sharpe (1990) argues that a lender would have more information and reduce the level of information asymmetry than others that are not in lending relationship. In the same vein, according to Ngwa (2010) borrowers are reluctant either not provide all the information required or may be deceptive with some. A study of asymmetric information and imperfect competition in lending markets by Crawford et al. (2018) shows that adverse selection is a problem for the lenders in lending decisions because the borrowers have more and better information than the lender. They may not be willing to divulge such information when it could influence the lending decision negatively. The lender's natural response to adverse selection arising from information asymmetry according to Einav and Finkelstein (2011) is to increase the lending interest rates to either compensate for unexpected losses or discourage lemon market borrowers.

The evidence of information asymmetry can take the form of failed projects and non-performing loans resulting in a number of factors. Such factors may not be unconnected to unreliable cash flows depicting a lack of capacity of the borrower to honour its obligations as and when due, character flaw evidenced by diversion of business proceeds, evasiveness and denial of loan conditions, which may not be fully aware or in-depth by the lender. The commitment of the borrower where equity participation is insignificant could be low and become a contributing factor to project failure.

The lenders need safeguards as benchmarks to reduce adverse selection and agency costs arising from information asymmetry in their transactions with the borrowers. The effects of a failed lending (credit) decision can be loss of investments which if persistent and massive could threaten the lender's going concern, litigation costs avoidable recovery and receivership costs and reputational issues. One of the age-long and tested methodologies that provide standard benchmarks for credit analysis to avoid or minimize adverse selection is the five Cs of credits. The essence of the five Cs is to ensure that the lender conducts due and adequate diligence that would prove reasonable assurance in line with their predetermined risk appetite, which will minimize the creation of non-performing loans. Several studies have established that the five Cs of credits technique is one of the techniques that lenders deploy in the assessment of their customers' loan requests (Peprah et al., 2017; Boahene et al., 2012; Kabir et al., 2010). Other credit evaluation techniques include the internal risk rating system (IRRS) and the strength, weakness, opportunity and threat (SWOT) technique (Dinu, 2012; Crouchy et al., 2006). Specifically, Aliija and Muhangi (2015) discovered in a case study of the effects of loan appraisal process management on credit performance in Micro Finance Institutions in Uganda that 48% of lenders rely on the five Cs of credit for their credit decision, 30% relies on Credit Scoring Model whole 22% make use of credit reference bureaus. Similarly, Sinkey (1989) argues that the determination of the creditworthiness of any borrower is better determined by the assessment of such a borrower using the five Cs of credit technique.

There is no consensus as to the ranking of the five Cs of credits which possibly explains why the technique may not be effective in curtailing high NPL ratios in the banking industry. For instance, Baiden (2011) who described the five Cs as fundamental tenets of lending and credit, and interrelated for the purpose of risk mitigation and enhancement of shareholders' value ranked the five Cs in their order of importance. He ranked character and capacity as the first and second respectively in the order of importance followed by capital, conditions and collateral respectively in the same order. He further argues that borrowers that meet the five Cs of credits are often regarded by lenders as "perfect" borrowers or customers that need to be courted. Though Peprah et al. (2018) agreed with Baiden (2011) in the order of ranking character and capacity, they however differ in the ranking of collateral which was ranked third and capital as the least. Similarly, Gyamfi (2012) and Strischek (2010) ranked character as the most important having been the only one of the five elements of credits that provide the basis for evaluating the integrity of the borrower to honour his obligations to the lenders as such should be accorded more scrutiny by the latter. It is not surprising that character which Abbadi and Karsh (2013) describe at the level of integrity of the borrower to honour his obligations to the lender as the most important of the five Cs of credit. Character is a measure of the borrower's integrity, personality, credibility, trustworthiness, decency, reputation, nobility and honesty (Addae-Korankye, 2014; Abbadi and Karsh, 2013; Strischek, 2010). Character depicts the value of a borrower that is willing but unable or lacks the cash flows to honour his obligations to the lender. Also, Mohamad et al. (2015) in their studies of how credits are evaluated in Malaysia's banking industry observed that character is the

most important of the five Cs of credit. Contrary to the rank of character as the most important of the five Cs, Simba and Mugo (2018), Aliija and Muhangi (2015) and Sharm and Kalra (2015) ranked capacity which is the ability of the borrower to honour his obligations from the business cash flows as the most important of the elements. In fact, Aliija and Muhangi (2015) based their argument on the premise that prospective lenders would be more interested in how the borrower intends to repay the loan facility rather than any of the other Cs of the credit. According to Dolezal et al. (2015) made credit classifications into relationship and transactional lending depending on which of the five Cs of credit the lender is more aligned with for lending decisions. Relationship lending places more emphasis on variables such as the character of the borrowers, the quality of the borrower's management team, ownership structure, customer satisfaction and market share. On the other hand the transactional lending emphasizes more on quantitative factors like cash flows, capital adequacy, return on assets and value of the collateral.

In spite of how the five Cs are ranked, the facts remain that any lapse in the adequate and objective assessment of any of the elements could spell a doom for the lender in that resources committed to the borrower and the lending process could become lost investments. For instance, Baiden (2011) argues impliedly that any defects in the objective assessment of character, capacity or collateral could result in credit risk for the lender through the outcomes of the evaluation of the five Cs no matter how detailed it could be according to Altman and Saunders (1998) be largely subjective for several reasons including the absence of asymmetry information and mood of the evaluating credit officers. The subjectivity and lack of objectivity of the five Cs of credit in making sound credit and lending decisions are attributed to five Cs of bad credit which according to Takieddine (−) and Golden and Walker (1993) represents complacency, carelessness, communication breakdown, contingencies and competition. These five Cs of bad credit lack "caution" which can be regarded as the silent factor embedded in the other Cs of credit. In developing the ten commandments of commercial credit, Golden and Walker (1993) opined that the five Cs of credit which provide the guides to good lending and the five Cs of bad credit are causes of bad lending. The Ten Cs of (bad) credit are essential criteria for booking either a good or a bad loan. It may be pertinent to acknowledge that some authors introduced "credit", "credit scores" "confidence," "complacency" or "communication" as the 6th, 7th or even 8th C of credit (Score, 2022, Webster Bank, 2021). What this implies is that the traditional five Cs of credit are inadequate to ensure quality loan facilities or risk assets are created.

The various guidelines by the regulators of the banking industry are to ensure that the lenders exercise caution on credit decisions by ensuring compliance with certain requirements, whilst information obtained must be treated with caution. For instance, it is expected for lenders to do independent confirmation of the background information provided by the borrowers such as the business and residential address of the promoters without alerting the borrowers. Caution is an unsung part of the loan evaluation equation though it is yet to be acknowledged in literature as an element of the credit evaluation process. According to Hassan et al. (2014), the failure to adequately or effectively assess all or any of the five Cs of credit has the potential to undermine quality credit decisions and cause credit defaults. Therefore, to ensure a more quality credit evaluation process using the five Cs of credit or any other credit analysis techniques, it is pertinent that caution as an element should be embedded. Each of the five Cs should not only be individually evaluated but all the elements should also be collectively evaluated with caution.

3.1. Proxies for the five Cs of Credit

Proxies were adopted by earlier studies on the five Cs of credits For instance, Gupta, 2016; Noman et al., 2014 adopted borrowers' history for character while the borrower's Debt/Income ratio was adopted for capacity (Connolly and Jackman, 2017; Erdogan, 2014). The borrower's fixed asset coverage (i.e. number of times the forced sale value of the pledged assets covers the loan exposures (Gavalas and Syriopoulos, 2015) for collaterals.

The borrower's capital adequacy ratio or gearing ratio (Makomeke et al., 2016; Olalekan and Adeyinka, 2013 for capacity. Lastly, the outcomes of credit searches, politically and financially exposed person search reports, inconsistencies in the borrower's information, outcomes of united nations and otherblacklist searches, credit risk officers' positions, etc. for conditions (Putri, et.al. 2018; Semaye, 2018; Strischek, 2000).

4. RESEARCH METHODOLOGY

4.1. Scope

The scope of the study is restricted to the post-consolidation era otherwise known as the period of bank recapitalization in Nigeria during which the minimum capital for commercial banks was raised to ₦25 bilion. The post-consolidation period started in 2005. According to Ernest (2012), the number of commercial banks before consolidation era was 89 while 24 eventually made it to the new era though some of those that made it were as a result of mergers and acquisitions of the weaker ones.

Prior to the pre-consolidation era, there was no presence of rigourous credit risk management process in the Nigerian banking industry though many banks had credit administration functions which were more of maintaining loan records and conducting post disbursement analysis. Preceding the recapitalization of the Nigerian banks was the Enron scandal which led to the Sarbenes-Oxley Act and the emergence of Basel II which emphasizes the need amongst others for corporate governance, capitalization and sound risk management practices. In essence, risk management function becames a vital aspect of the commercial banks' operations post-consolidation, thanks to the Central Bank of Nigeria with many of its regulations including setting up a risk management directorate in CBN and encouraging the banks to make risk management a directorate for independence, autonomy and effectiveness in the discharge of its duties. The credit risk management function cuts across loan origination to full loan recovery which implies exercise of *caution* advertently or inadvertently by the lenders throughout the life span of the facility.

4.2. Sample Size and Data Collection

The target population was the Nigerian licensed commercial banks (comprising conventional, non-interest and merchant banks) in operations as at 31st December, 2022. There were 33 of them. All the banks were sampled.

The study administered a structured questionnaire that covers amongst others operational credit policies, insititutional ranking of the five Cs of credits, compliance with the credit policies and institutionalization of credit risk functions in addition to regulatory requirements. Others are the independence of credit risk management functions from the board and management interference, the weight of the credit risk management position on credit matters and the reporting line of authority.

4.3. The Model

The hypothesis:

H_0: The five Cs (character, capacity, capital, collateral and conditions) have no effects on loan performance

H_a: The five Cs (character, capacity, capital, collateral and conditions) have effects on loan performance.

The model:

$$NPL_r = f \text{ (the five Cs of Credit)}$$

$$= f (C_h, C_p, C_o, C_a, C_d) \quad (1)$$

Eqn (1) can be further expanded to:

$$= a_0 + \beta C_h + \beta C_p + \beta C_o + \beta C_a + \beta C_d + \mathcal{E} \quad (2)$$

$$NPLr = a_0 + [\beta C_{ht+n} + \beta C_{pt+n} + \beta C_{ot+n} + \beta C_{at+n} + \beta C_{dt+n} + \mathcal{E} \quad (3)$$

Where:
NPL_r = the ratio of non-performing loans and advances
C_h = the character of the borrower as a measure of the integrity and willingness of the borrower to honour its obligations as and when due
$C_{p.}$ = the adequacy of the cash flows from the business of the borrower to repay the loan facility as and when due
C_o = the worthiness and adequacy of the collateral assets pledged by the borrower to repay the loan facility in the event of default
$C_{a.}$ = the borrower's financial commitment to the business and the ability of the business to pay its creditors in the event of insolvency
$C_{d.}$ = the business environment conditions and policies that exactly influence the borrowers
$\mathcal{E}$ = the elements of error in the evaluation process

In a nutshell, a conscious integration of C_u into the five Cs of credits would improve the *NPLr* if the outcome of their assessment during the loan facility is considered prior to the facility approval. It would result in healthier lending in the banking industry and economy that could attract more funding from both domestic and foreign sources for lending activities.

5. RESULTS AND FINDINGS

5.1. Descriptive Statistics

5.1.1. Effectiveness of credit policies and staffing to assure the creation of quality risk assets

The study observed that all the banks have credit policies that guide their lending activities post the consolidation era. These findings might not be unconnected with the regulatory requirements and close monitoring the regulators (CBN and NDIC) provide to the banks. However, 17.6% of the respondent banks expressed concern that the existing structrure including relevant credit policies and the staffing capacity available was not able to ensure the creation of quality risk assets. This implies that 17.6% of the banks' risk asset creation process could be jeopardized.

5.1.2. Ranking of the five Cs of credits

The study observed that 76.47% of the respondents considered character as the most important of the five Cs, while 58.82% and 35.30% considered capacity and capital as the most important,respectively. On the other hand, 52.94% considered collateral.as the least important of all the five Cs of credit is the matrix of the ranking of the five Cs of credit as derived from the feedback by the respondents.

The above analysis shows in Table 1 shows that Character is the most important C of credit followed by Capacity and Capital in that order while Collateral is the is the second least important and Condition is the least important of all the Cs of credit. The study observed that 58.8% of the responding banks' choice of the most important of the five Cs of credits was based on the need to get the borrowers committed to loan repayments. Factors that drove lenders' commitment are mainly character, pledged collateral and capital as a representation of owners' stake in the business. On the other hand, lenders' comforts such as facility's terms and conditions that favour the lenders and cash flow projections (capacity) were the main considerations for 29.4% of the responding banks in deciding the most important of the five Cs in their risk asset creation process. Lastly, 11.8% of the responding banks were most concerned about secondary repayment or recovery of their exposures in determining the most important of the five Cs and without mincing words, it is collaterals. The respondents' choice of the least important of the five Cs was between recovery challenges (52.9%), sensitivity to changes (35.3%) and measurement difficulties (11.8%). For instance the respondents that were concerned about the sensitivity of the five Cs to changes considered the unreliability of capacity (cash flow projections) in view of the unpredictability of the macroeconomic environment and other factors that influence the Nigerian business enviroment.

5.1.3. Independence of credit risk management functions

One of the distinguishing features of any control function is independence. The independence includes not being involved in the generation of the transactions being subjected to review and having the liberty to do what needs to be done without undue interference or influence that could jeopardize their independent opinions. Credit risk management is a critical control function in the creation of risk assets by lenders and such function should be independent of

Table 1: Ranking of the five Cs of credits

Five Cs of credit	Most important (%)	Very important (%)	Important	Not very important (%)	Least important (%)	Total (%)
Character	76.47	17.65	5.9	0	0	100
Capacity	17.65	58.82	11.76	0	5.9	100
Captital	11.76	11.76	11.76	35.29	23.53	100
Colleteral	5.9	0	23.53	17.65	52.94	100
Conditions	0	11.76	35.29	26.41	23.53	100

any influence. According to Koutoupis and Malisiovas (2019) and Otoo, Asumah, Peprah-Amankona and Andzie (2021) the quality of risk assets created by banks is a function of the components and independence of the internal control functions including credit risk management. The results of the study show that all the respondents have credit administration and control functions but only 70.6% of the respondents' credit control functions report directly to the Board while the rest report to the management. This implies that the independence of those (29.4%) that do not report to the Board is influenceable by the Management which possesses the tendency to compromise the process of creating and monitoring the risk assets. In the same vein, 11.8% of the respondents reported that they did not comply strictly with the credit policies while 5.9% of the respondents have their credit management functions easily influenced by the front-facing lending functions or units of the bank. This further buttresses the likelihood of interference in the activities of the credit risk control functions.

5.1.4. Staffing and capacity building for lending and control function officers

Only 64.7% of the respondents reported that their credit risk and control functions are adequately staffed while 46.3% reported that their functions are not properly staffed. Also, the study observed that 70.6% of the banks provide relevant capacity building to their lending and control functions staff regularly while 29.4% occasionally exposed their staff to trainings. Both adequate staffing and capacity building of the credit risk and control functions are very essential to optimal performance that would also help in the creation and monitoring of quality assets for the institutions.

5.2. Regression Analysis

The outcomes of the regression analysis using SPSS software for the two hypothesis are discussed below:

The Hypothesis:

H_0: The five Cs (character, capacity, capital, collateral and conditions) have no effects on loan performance

The adjusted R. squared was 0.736 which implies that the independent variables represent at least 73.6 of the beheavior of the dependent variable (NPLr). The constant coefficient was positive at 5.447 with an F-test of 9.867 which implies that the model and all the independent variables are significantly and positively correlated to the NPLr. The study observed that the coefficient of each of the independent variables which are the five Cs of credits (character, capacity, capital, collateral and conditions) were significantly and negatively correlated to the dependent variable (NPLr).

The value of non-performing loans (NPLs) is always negative as it represents the proportion of total loan portfolios at risk. Therefore, there is a direct correlation between the independent and dependent variables which implies that if any of the former or a combination of them is negative, the loan portfolio is at higher risk of resulting in NPLs. In other words, negative independent variables would result in NPLr and the worse the former, the worse would be the latter. The observed $P = 0.001 < 0.05$ at a 5% level of significance which suggests that the null hypothesis (H_0) should be rejected. This implies that the 5 Cs of credit are essential for lending decisions.

6. CONCLUSION

Credit evaluation and decision like any investment decision requires utmost due diligence from the credit analysts and the credit officers to avoid high default rates. As the borrower would naturally present information that would favour its interest, it is expected of the lender to apply caution all the way by eliminating all forms of asymmetry information that lead to adverse selection and thereafter non-performing the loans. The study recommends that *caution factor* should be the watchword right from the credit information gathering throughout the credit evaluation and decision-making process.

It is necessary to note that while the traditional five Cs (character, capacity, capital, collateral and conditions) are required from the borrower, caution is required from the lender as a check on the traditional five Cs. *Caution* which it considered as a slient C of credit embedded in the five Cs and the only C provided by the lender should be the watchword throughout the credit risk management process.

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APPENDIX 1

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.904[a]	0.818	0.735	0.048182

a. Predictors: (Constant), Character, Capacity, Condition, Capital, Collateral

ANOVA[a]

Model						
1	Regression	0.115	5	0.023	9.867	<.001[b]
	Residual	0.026	11	0.002		
	Total	0.140	16			

a. Dependent Variable: NPL Ratio

b. Predictors: (Constant), Character, Capacity, Condition, Capital, Collateral

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	5.447	0.895		6.085	0.000
	Capital	-5.276	0.887	-4.705	-5.946	0.000
	Condition	-5.413	0.897	-5.974	-6.037	0.000
	Collateral	-5.312	0.951	-5.385	-5.585	0.000
	Capacity	-5.301	0.852	-4.603	-6.224	0.000
	Character	-5.597	0.942	-6.963	-5.943	0.000

a. Dependent Variable: NPL Ratio