

Credit Analysis

Unveiling the Essentials

(Mandar Mitra)





Introduction

Credit analysis is the art of evaluating a borrower's ability to repay loans. In this carousel, we delve into the fundamentals of credit analysis.



The Borrower's Profile

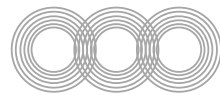
Credit analysis begins with a *detailed examination* of the borrower's *financial profile*, including

- *income*
- *expenses*
- *credit history*



Examining Approaches

- There are **two** main types: *quantitative and qualitative analysis*.
- *Quantitative analysis* focuses on **numbers and ratios**.
- *The qualitative analysis* considers less tangible factors like **management quality**.



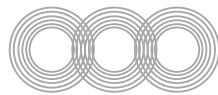
Credit Scoring Models

- *Credit scores* summarize a borrower's *creditworthiness*.
- **FICO and VantageScore** are *popular* credit scoring models.
- Higher scores reflect *lower credit risk*.



The 5 C's of Credit

- **Character, Capacity, Capital, Collateral, Conditions**
- These five *critical factors* guide credit analysis.
- Lenders *assess* the borrower's *willingness, ability, and financial stability*.



Loan-to-Value Ratio

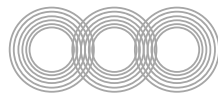
(LTV)

- *LTV calculates the value of a loan in relation to the collateral.*
- **A lower LTV** *ratio reduces the lender's risk.*



Debt Service Coverage Ratio (DSCR)

- DSCR *measures* the ability to *meet debt obligations*.
- A **ratio above 1** *indicates* the *ability to cover debt payments*.



Default Probability

Understanding Risk

- Credit analysis *aims to predict* **default probability**.
- Higher risk *equates* to a **higher interest rate**.



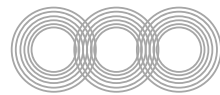
Credit Reports, Credit Bureaus and Analysis Tools

- Credit reports from bureaus like *Experian, Equifax, TransUnion CIBIL, and CRIF Highmark*.
- They provide a borrower's *credit history*, including *loans, payments, and credit inquiries*.
- Credit analysts use *software tools* to streamline data processing.
- *Credit scoring, financial modeling, and risk assessment software*.



Conclusion.

*Credit analysis isn't just for loan origination.
Continuous monitoring helps lenders manage
risk throughout the loan's life.*



Keep Learning
&
Succeeding!

Mandar!



save for later —

