Appendix B: CAMELS Key Considerations & Ratios

CAPITALIZATION AND CAPITAL STRUCTURE

CONSIDERATIONS:

Composition and trends of CDFI capital
Ratios demonstrating balance sheet health
Characteristics of net assets (restricted vs. unrestricted)
Diversity and predictability of capital sources
Characteristics of debt (cost, terms, subordination, etc.)
Capitalization strategies
Off-balance sheet activities (assets available, contingent liabilities)

KEY RATIOS:

Increase in Total Assets = (Total Assets Year 2 – Total Assets Year 1)/Total Assets Year 1
Net Asset Ratio = Total Net Assets/Total Assets
Unrestricted Net Asset Ratio = Total Unrestricted Net Assets/Total Assets

ASSET QUALITY

CONSIDERATIONS:

Portfolio performance (delinquencies, write-offs, restructures)
Portfolio composition (geographic, industry, etc.)
Loan security (actual collateral, collateral required by policies)
Loan loss reserve management
Loan process, underwriting practices
Loan policies (risk management and portfolio management)

KEY RATIOS:

Portfolio at Risk (90+ days delinquent) = Total Loans Delinquent/Total Loans Receivable
Annual Net Charge Off Ratio = (Total Loans Charged Off – Recoveries)/Total Loans Receivable
Loan Loss Reserve Ratio = Loan Loss Reserves/Total Loans Receivable (*generally* should be in line with the Portfolio at Risk ratio)

MANAGEMENT

CONSIDERATIONS:

Strategy (strategic planning, legal structure)
Governance (succession planning, board expertise, board practices)
Management & Staffing (experience and qualifications, turnover, structure)
Infrastructure (audit findings, information systems)

EARNINGS

CONSIDERATIONS:

History and trends of operating results and self-sufficiency
Predictability and stability of earned revenue
Diversity and sustainability of grant revenue
Cost containment through expenses
Pricing and net interest margins (spread)

KEY RATIOS:

Net Income = Total Revenue & Support - Total Expenses (should be > $0)
Self-Sufficiency Ratio = Total Earned Revenue /Total Expenses (industry target > 40%)
Interest Coverage Ratio = Interest Income /Interest Expense (should be > 100%)

LIQUIDITY

CONSIDERATIONS:

Operating liquidity levels and trends
Lending liquidity levels and trends
Appropriate asset-liability matching
Interest rate management

KEY RATIOS:

Operating Cash Ratio = Total Cash & Cash Equiv for Operations/Total Annual Expenses (should be > 25%...enough to cover 3 months of expenses)
Deployment Ratio = Total Loans Receivable/Total Lending Capital (CDFI Fund target > 50%)
Current Ratio = Current Assets/Current Liabilities (should be > 100%)

SENSITIVITY

CONSIDERATIONS:

Interest rate risk
Portfolio concentration risk
>A *forward looking* assessment of risk