

## Five C's of Credit

There are a couple of old sayings that relate to getting a loan. The first one is that bankers only want to lend money when you don't need it. As frustrating as that is, it's understandable, since bankers naturally want to minimize their risks.

However, you can change the odds of getting cash when you need it by gaining a clearer understanding of the lending process.

Loan officers will look for at least two sources of repayment and possibly a third:

**Cash flow** from operations for short-term loans and continued positive earnings for long-term loans;

**Collateral** such as a mortgage on fixed assets, accounts receivable, or inventory as a backup to the first source, and

**Personal guarantees** if the lender wants a third source that demonstrates your commitment to the operation and its success.

DO	DON'T
Be honest regardless of whether the information is positive or negative.	Make promises that you're unable to keep.
Present a clear, concise and comprehensive plan. Know the amount you need. Provide written documentation.	Ask the loan officer how <i>much</i> money you can borrow.
Set an appointment to discuss your request with a loan officer. Allow enough time. Negotiate loan terms and rates after presenting a complete request.	Be demanding and over-anxious. Insist on term and rate information over the phone without presenting the necessary information
Ask questions about anything you don't understand.	Spend the money before your loan request is approved.

There's another aspect of the loan application process from the lender's viewpoint. The loan officer is generally going to want answers to questions on the *Five C's of Credit*:

- 1. Capacity.** What is your ability to meet the financial obligations of the debt, and what are the track records of both you and the business? It's a plus if you have experience in the same industry, preferably in management.
- 2. Collateral.** What assets can you pledge to support the primary source of repayment?
- 3. Capital.** How much equity is there in the business and how much of your own money have you devoted to the project?
- 4. Character.** How trustworthy are you and your partners? Regardless of the financial forecast presented, the loan officer must evaluate the owners' integrity.
- 5. Conditions.** What is the outlook of the economy and the industry?

*The other old saying:* Forewarned is forearmed. Understand the process, have your answers ready and convincing and you boost your chances of borrowing the money you need.