

Back to the Basics:

The Five C's of Credit

When looking for a small business loan, your financial institution will review your overall credit-worthiness. Your application package should document the purpose of your loan request, in detail, so your lender can embrace your vision.

Through the loan underwriting/analysis process, the bank will consider all of the following key factors, known as the "Five C's of Credit":

Capacity: your ability to repay the loan.

Your financial institution wants to know exactly how you intend to pay back the loan. The lender will consider cash flow from your business (actual and/or projected), the timing of the repayment and its feasibility. In addition, your lender looks at your past credit history, as it is often a good indicator of your future performance.

Capital: the amount of money you have invested in your business and/or transaction.

Most financial institutions are looking for you to have some of your own personal funds/assets incorporated into the transaction. This demonstrates a personal commitment to your venture.

Collateral: offering security for your loan.

Putting forward collateral demonstrates a borrower's confidence and commitment to the transaction. Additionally, the collateral can become a secondary source of repayment for your loan, if needed. For example, pledging a personal asset as security, such as your home.

Conditions: details of the intended purpose of the loan.

The financial institution will also consider the economic climate and its impact on your business/industry.

Character: your background and business experience.

An up-to-date resume can help provide this information.

Today, more than ever, you will find that bankers are getting back to the basics and revisiting the "Five C's of Credit" when reviewing a loan request. Always be prepared to discuss these items with your financial institution when looking to obtain a loan.

Written by Carolyn Bernitt, VP/Manager of Rhinebeck Bank, Rhinebeck.