

# The Five C's of Credit

## 1. Capacity: How are you going to repay the loan?

**Cash Flow:** Is your business making money? Most lenders require that your net income be at least 1.25 times the proposed debt payments. Here's how to figure:

$$\frac{\text{Net Income} + \text{Depreciation \& Amortization}}{\text{Proposed Loan Payments (Principal + Interest)}} \geq 1.25$$

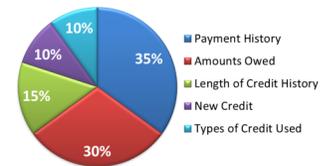
### Payment History:

**Personal Credit**—Lenders usually require a small business owner to personally guarantee a loan. Know your credit score, and protect your credit. Here are a couple of things you can do to improve your personal credit: 1) Pay down debt; 2) Limit the number of inquiries to your account; 3) Pay your bills on time, and make sure you're up-to-date on any loans, including student loans.

**Business Credit** – Are there large debts on your balance sheet? If you have more debts than assets to pay them with, this is a red flag to lenders.

**Other Sources of Income:** Is there another source of income in your household? Lenders will consider other sources of income to be "backup" sources of repayment.

### What Goes Into a Credit Score?



### Do You Know Your Credit Score?



## 2. Collateral: What security can you provide?

Collateral is usually required for small business loans. You pledge an asset as security for the loan. This chart shows the value of various forms of collateral:

Collateral Type	Lender will value at:
House	75 – 80% of Market Value minus Mortgage Balance
Car	Nothing
Truck/Heavy Equipment	50% of Depreciated Value
Office Equipment	Nothing
Furniture & Fixtures	50% of Depreciated Value
Inventory: Perishables	Nothing
Jewelry	Nothing
IRA or 401(k)	Nothing (unless rolled over using a FranPlan)
Receivables	75% of Receivables under 90 days
Stocks & Bonds	50% - 90%
Mutual Funds	Nothing
CD	100%

### 3. Capital: How much money have you invested in your business?

Prospective lenders and investors like to know that you have personally invested money in your business. They also want to know that your business has enough extra capital to handle any unforeseen needs. Most lenders and investors have a specific percentage that they require you to invest in your business, and the range is usually 10 to 25% of the loan/investment amount. Loans for real estate and fixed asset purchases usually require that you pay a certain amount toward the purchase, usually 10–20%.

### 4. Conditions: How are you going to use the loan?

Lenders will require that you provide details on how you're going to use the money, and where you're going to get all the money you will need. This is called a Sources and Uses of Funds Statement:

Sources of Funds		Uses of Funds	
Bank loan	\$500,000	Equipment	\$250,000
Personal cash	100,000	Renovations	200,000
		Furnishings	50,000
		Working capital	100,000
<b>TOTAL</b>	<b>\$600,000</b>	<b>TOTAL</b>	<b>\$600,000</b>

Lenders will also consider the history of your business and the economic outlook of your industry. If your industry is especially sensitive to economic downturns, or your main products/services are seasonal, you will need to show that you can handle productivity and costs to weather unforeseen events.

### 5. Character: Who are you?

Do you have experience in your industry? Have you ever managed a business, or supervised employees? What in your educational and work background has qualified you to run this business? Lenders want to know that you have the credentials and experience to run a successful business. Having good references is critical.

Include in your documentation for the loan a copy of your resume and the resumes of your top managers.

[Your Name] [phone]  
[Street Address], [City, ST Zip Code] [e-mail]

**Professional Profile**  
[Briefly describe your professional background and education relevant to this position.]

- [Relevant skill] • [Relevant skill]
- [Relevant skill] • [Relevant skill]
- [Relevant skill] • [Relevant skill]

**Professional Accomplishments**

[Field or Area of Accomplishment]

- [Achievement]
- [Achievement]
- [Achievement]
- [Achievement]

[Field or Area of Accomplishment]

- [Achievement]
- [Achievement]
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- [Achievement]

[Field or Area of Accomplishment]

- [Achievement]
- [Achievement]
- [Achievement]
- [Achievement]

**Work History**

[Job title]	[Company Name] [City, ST]	[dates of employment]
[Job title]	[Company Name] [City, ST]	[dates of employment]
[Job title]	[Company Name] [City, ST]	[dates of employment]
[Job title]	[Company Name] [City, ST]	[dates of employment]

**Education**

[Degree]	[School Name] [City, ST]	[date of graduation]
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**References**  
References are available upon request.

**TIP:**

Part of your documentation for a loan will include your Personal Financial Statement.

Remember:

**Assets**  
(the current value of everything you own)

**MINUS**

**Liabilities**  
(the current balances of everything you owe)

**EQUALS**

**Your personal net worth**