



The Five C's of Credit

Getting Ready to Meet with a
Banker & the Questions You
Should Be Prepared To Answer.



The Five C's Of Credit

The Questions You Should Be Prepared To Answer Before You Meet With A Lender.

If you're going to ask someone for money, they'll likely have a lot of questions and you should be prepared to answer them. In order to secure a loan from a serious lender (and to succeed as a business in general) you need a fully articulated business strategy and be ready to answer the hard questions about how your business is going to succeed over the long term. Most lenders also require a formal written business plan.

The following list of questions is a starting point, but your particular business or industry might have more specific issues that you should be familiar with. Don't get too caught up in the details, however, they may stick to relatively simple, but devilishly difficult to answer questions such as "Why do you think we should loan you this money?"

Lenders often use the framework of the "Five C's" to understand the creditworthiness of a potential borrower. We've broken down the questions you should be prepared using this framework.

CHARACTER: Here the lender is looking at the business' and, especially if you're a startup, the founding member's credit history.

CAPITAL: Borrowers want to know what kind of money the owners have put into the firm, either retained earnings or contributed equity.

CAPACITY: Your ability to pay back the loan using the revenues from the firm. This can be more important than money you've contributed.

COLLATERAL: The strength of your balance sheet. The more assets you have, the more likely you are to get a loan and avoid personal guarantees.

CONDITIONS: Lenders want to manage risk, and it's critical you understand the risks your firm faces and how you'll overcome them.

Character - The Firm & Its Owner's Reputation

- What's your personal background, how long have you been in this field, what made you enter the field?
- What kind of training or experience does your leadership team have?
- How are you personally going to make money until the business begins to be able to pay you?
- What are the policies (governance, management) and procedures (billing, inventory management, etc.) the co-op has in place to ensure the business can succeed?
- What is the credit of the business / founders like?
- Does the business have a profitable operating history?

Capital - Money you bring to the table

- What kind of equity investment are you and the other worker owners making in the business?
- If you're an operating business, what kind of retained earnings does the firm have?
- Will you be making a personal guarantee?
- What other equity does your business have?

Capacity - Your Ability to Repay the Loan

- How much money do you need, what will you use it for and how will this grow your business?
- How will your business repay the loan – is the cash the business generates more than the debt service?
- How would we get paid back if the business failed? (Is the collateral sufficient to repay the loan?)
- Who are your customers, how do you (or will you) connect with them?
- Why would anyone go with you, rather than your competition? (the answer to this should not be that we're a co-op)
- What is the location of the business, why did you choose it?

Collateral - The Strength of Your Balance Sheet

- What kind of collateral does the business have?
- Does the business have assets such as property or machinery to help to secure the loan?
- What is your debt to equity ratio?
- What is your current ratio?

Conditions - Your local and industry market conditions

- What are the biggest competitive threats or obstacles facing your business, how do you plan to address them?
- Who are your competitors, how do your prices and quality compare?
- What is your firm's marketing and outreach strategy?
- What kind of market research did you do?
- What is your capacity to make the product or deliver the service?
- Most businesses fail, why is yours different?

Lenders with a solid record of lending to worker cooperatives

Capital Impact Partners

www.capitalimpact.org

Service Area: National

Common Wealth Revolving Loan Fund

<http://commonwealthinc.org>

Service Area: Ohio & Surrounding States

Local Enterprise Assistance Fund (LEAF)

www.leaffund.org

Service Area: National

National Cooperative Bank

www.ncb.coop

Service Area: National

Northcountry Cooperative Development Fund

www.ncdf.coop

Service Area: National

Northern California Community Loan Fund

www.ncclf.org

Service Area: Northern California

One Pacific Coast Bank

<http://www.onepacificcoastbank.com>

Service Area: CA, OR, WA

The Cooperative Fund of New England

www.cooperativefund.org

Service Area: New England

The Working World

www.theworkingworld.org

Service Area: National