When reviewing a loan request, the lender is primarily concerned with repayment. Loan officers judge loan applications based on what is commonly referred to as the five C’s of Credit.

1) **Character:** Lenders will order a copy of your credit report and look at debt repayment trends. They want to know simply if you pay your bills and if you pay them on time. If there are blemishes on your report, explain them.

2) **Cash Flow:** Lenders will look at historical and projected cash flow statements to determine whether you will be able to repay the loan and still have money to adequately run the business. Include written justification for your projections in your loan proposal.

3) **Collateral:** Collateral is an asset (something you own) which a lender may claim to satisfy a loan in the event the loan is not repaid according to the required terms. Often the assets purchased with the loan may serve as collateral. If the business does not have enough collateral, the bank will look to personal assets.

4) **Capitalization:** Capitalization refers to the basic resources of the company including owner’s equity, retained earnings, and fixed assets. You do not have to be fully capitalized to qualify for a loan.

5) **Conditions:** Factors that affect the success of the company yet are external to the business will also be considered by the lender. Examples include government regulation, competition, and industry trends.

*Continued on back*
Business Plan Protection

A carefully thought-out business plan can lessen the chance that a new business will fail. A good business plan provides:

- A reality check for a new entrepreneur.
- A means of making sure a new entrepreneur has done sufficient research before committing to a business idea or investing money.
- A way to think about potential problems before they occur and avoid cash crunches.
- An aid in securing financing from lenders and investors.