TENNESSEE STATE University

Cooperative Extension Program

An Outreach Education Program Serving Limited Resource Individuals, Small Farmers, Families, and Communities

How Your Loan Request Will be Reviewed

Alvin Wade, Associate Professor

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.

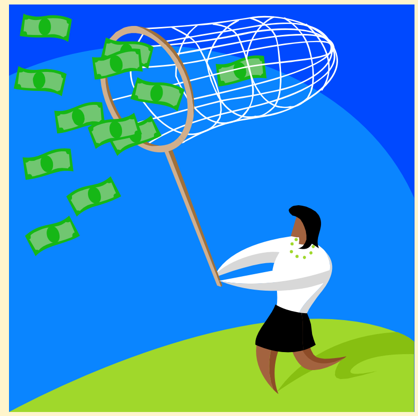
4) Capitalization: Capitalization refers to the basic resources of the company including owner's equity, retained earnings, and fixed assets. You do not have to be fully capitalized to qualify for a loan.

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.

This *Community Resource Development* Fact Sheet is part of a series prepared by the Cooperative Extension Program at Tennessee State University.

For more information, contact your local county Agricultural Extension agent (See your telephone blue pages). Printable copies of this fact sheet can be found on our website.

WE'RE ON THE WEB!
HTTP://WWW.TNSTATE.EDU/CEP

Educating People for Better Living

TSU-05-0023(A)-7E-533224

The Agriculture Extension Service and the U.S. Department of Agriculture cooperating

Printed by:

DocuTech Printing Service
Tennessee State University
Cooperative Extension Program
3500 John A. Merritt Blvd., Box 9635
Nashville, TN 37209-1561
615-963-5533

Clyde E. Chesney, *Administrator*
Latif Lighari, *Associate Administrator*