

The Five Cs of Credit

Preparing to Meet with a Lender



In order to secure a loan, you will need to prepare a fully articulated business strategy and a written business plan. You should also be prepared to answer questions about how your business is going to succeed over the long term. Lenders often use the following framework of the "Five Cs" to understand a borrower's creditworthiness:

1 CHARACTER

Lenders will review the reputation and credit history of your business. Come prepared to answer:

- What is your business background? How long have you worked in your industry? Why did you start a business?
- What kind of training or experience does your leadership team have?
- What are the policies and procedures that your business has developed to ensure future success?
- What is your individual credit history?
- Does the business have a profitable operating history? What is the business's credit history?

2 CAPITAL

Lenders will want to know about the money you've already put into your business and are able to bring to the table. Come prepared to answer:

- What kind of equity investment have you and other worker-owners made?
- If your business is already in operation, what kind of retained earnings do you have?
- A personal guarantee is a promise to take personal responsibility for repaying a loan if the business is able to repay the lender. Will you be making a personal guarantee?
- What other equity does your business have?

3 CAPACITY

Lenders will want to assess your ability to pay back a loan using profits from your business. Come prepared to answer:

- How much money do you need? What will you use the money for and how will this grow your business?
- How will your business repay the loan? Will your business generate more cash than the debt service?
- How will you repay the lender if your business fails?
- Who are your customers? How do you connect with them?
- Why would your customers choose your business rather than one of your competitors?

4 COLLATERAL

Lenders will want to know what kind of money you've put into your business and are able to bring to the table. Come prepared to answer:

- What collateral does your business have?
- Does your business have assets such as property or machinery to help secure the loan?
- What is your debt to equity ratio, calculated by dividing the company's total liabilities by its total equity?
- What is your current ratio, calculating by dividing the company's current assets by its current liabilities?

5 CONDITIONS

Lenders want to manage risk, and it's critical that you understand how you will manage risk and address the market conditions within your geographic region and industry. Come prepared to answer:

- What are the biggest threats or obstacles facing your business?
- Who are your competitors? How do your prices and services compare?
- What is your marketing and outreach strategy?
- What kind of market research have you conducted?
- What is your capacity to make the product or deliver the service?
- How will you prevent your business from failing?

Lenders with a record of lending to worker cooperatives

Capital Impact Partners | www.capitalimpact.org

National Cooperative Bank | www.ncb.coop

Cooperative Fund of New England | www.cooperativefund.org

Shared Capital | www.sharedcapital.coop

Fund for Jobs Worth Owning | www.jobsworthowning.org

The Working World | www.theworkingworld.org

Local Enterprise Assistance Fund | www.leaffund.org