

The Five Cs

What does a lender look at when I apply for a loan?

Though the specifics vary by type of loan and by lender, there are five factors that will influence your likelihood of getting a loan and the kind of terms (interest rates, etc.) you will get.

Credit

Your credit history and credit score will play a big part in your chances of getting a loan. Credit scores are based on several factors (repayment history, amounts owed, length of credit history, types of credit used, and new credit). Credit scores run from 350 (very poor) to 850 (excellent). Above a 650 is considered good credit. Below that will make it difficult to obtain a traditional bank loan. The good news is you can improve your credit score with some work and time.

Cash Flow

If you've been in business for a few years (usually 2-3) and your business is generating enough cash (after all your expenses) to cover the loan payment for the amount you want to borrow, you are in good shape.

If you are a start-up or you're getting a loan to expand (new equipment, location, etc), a lender will likely want to see projected financial statements. The key to this is that your assumptions are reasonable and defensible.

Collateral/Contribution

A lender may ask you to put property that you own (business and/or personal) as collateral (i.e. building, equipment, inventory). A lender may also ask you to have a certain percentage of cash against the total loan amount (e.g. 10-20% existing business or 20-30% start-up).

Conditions

A lender will look at your market and your industry. Is there steady demand? Is it growing? Then you're in good shape. Are you in a less steady industry like retail or restaurants? You may have more stacked against you.

Character

What's your background? Have you run a successful business before? A lender will look at your resume and track record and factor that into whether you're a good candidate for a loan.

Confused? Give us a call? We'll help you feel confident!



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