**Summer Fusion 2015**

**Assignment:** Read the 5 “C’s” of Credit used by Banks on the next page, and answer the following questions:

1. Assume that you are an investor in a fairly new entrepreneurial business. Rank the 5 “C’s” in order of importance for you, with a brief explanation why.

1. If you were applying for a Bank loan today, and had to document/prove your Character, what would you provide/say about yourself?
2. Bonus (Optional, 1 point): If your answer to #2 isn’t strong/convincing, what could you do in the next 5 years to improve your demonstrated Character?

The Five “C’s” of Credit

"What are you looking for from me and my business if I need to borrow?"

While each lending situation a bank reviews is unique, most banks utilize some variation of "The Five C's of Credit" when making credit decisions - **Character, Capacity, Capital, Conditions, and Collateral.**

Character

Banks want to put their money with clients who have the best credentials and references. The way you treat your employees and customers, the way you take responsibility, your timeliness in fulfilling obligations - that's character.

Capacity/Credit

What is your company's borrowing history and track record of repayment. How much debt can your company handle? Will you be able to honor the obligation and repay the debt? There are numerous financial benchmarks such as debt and liquidity ratios that banks use before advancing funds.

Capital

How well capitalized is your company? How much money have you invested in the business? Banks want to see that you have a financial commitment; that you have put yourself at risk in the company.

Conditions

What are the current economic conditions and how does your company fit in? If your business is sensitive to economic downturns, the bank wants to know that you are good at managing productivity and expenses.

Collateral

While cash flow will nearly always be the primary source of repayment of a loan, bankers look at what they call a secondary source of repayment. Collateral represents assets that the company pledges as an alternate repayment source for the loan. Hard assets. Most collateral is in the form of real estate and office or manufacturing equipment. Your accounts receivable and inventory can also be pledged as collateral. Unless you're a business with a proven payments track record, you will almost always be required to pledge collateral.