



The Five C's of Credit

What Community Futures Looks for in a Loan Application:

When your local Community Futures staff and volunteer board assess the merits of your loan application, they take into account our own version of the classic banking industry guideline “The Five C’s of Credit.” As we are developmental lenders – and because community economic development is our number one priority – we are able to interpret and prioritize lending criteria a bit differently than traditional banks.

Here’s some insight into the criteria we will use when we look at your loan application:

1. Character

Character is a combination of your credit history, your training and work history, and any proven experience you have at running a business. Most banks look primarily at how the loan will be secured. While this is also important to us, we value your personal experience and track record too. We’ll also want to know about the industry skills and management experience of your leadership team, because even the best business ideas don’t succeed without strong management. It’s all part of ensuring that you are set up for success in business – not just loan repayment!

2. Capacity

Capacity refers to your ability to take on and repay debt based on the earning potential and cash flow of the business. We look at your business plan very carefully to determine the strength and marketability of your idea as well as the viability of the business. It is therefore very important that you take the time to carefully research and thoroughly test your business concept. We also want to make sure there will be adequate cash flow, to ensure that you can realistically afford the loan. If you are asking for a loan for an existing business, we’ll look carefully at your historical financial statements. If you are starting a new business, we’ll review projected financial statements as well as data like industry averages.

3. Conditions

When assessing a loan request, we take great care to understand the market and conditions in which you are planning to operate your business. Is the industry mature, or emerging? What are the current political, environmental, social, and technological issues affecting the industry? To gain insight, we look at data from industry associations and government and regulatory bodies, as well as your own marketing plan research. And, of course, we factor in the ability of your business to help drive rural economic diversification – adding recognition for big potential impacts.

4. Capital

Capital includes your personal and corporate net worth, the “sweat” and real equity you have invested in the business and your ability to access other financial reserves. We want to make sure you have adequate capital to grow your business and to weather any unexpected emergencies or setbacks. Having insufficient capital is a common mistake for too many businesses, and we want to ensure it doesn’t happen to you.

5. Collateral

Because Community Futures organizations are developmental lenders, we place a greater focus on the management team, business capacity, market conditions, and cash flow of a business. However, we do have a responsibility to lend money responsibly, and therefore must take adequate security. We will be as creative as we can in assessing your collateral, but we are aiming for a 1:1 security to loan principal ratio.

Your chances of obtaining a loan depend upon how you are assessed in each of these areas. By becoming familiar with these 5 criteria, you can ensure that your business plan addresses all the essential points, and that you are prepared to answer any questions the review board may have. Be ready to show us the creativity, energy and drive behind your business idea – and we’ll do our best to help.