

The Keys to Commercial Lending

The 5C's of Credit



Banks Want to Loan Money

- Banks have a fiduciary responsibility to lend in a safe and prudent manner.
- Banks use deposits to fund loans.
- Depositors want their money back.
- Bank regulators require loans to be as safe as possible to protect depositors.

So what are the 5 C's of credit?

- Character
- Capacity
- Capital
- Collateral
- Conditions

Character

(Who pays the loan back)

- Stability of Borrower
- Personal Credit - Experian, Trans Union, Equifax
- Company Reputation – D&B, Lexis Nexis
- Management Ability

Capacity

(How does the loan get repaid)

- Global Cash Flow
- DSCR – Debt Service Coverage Ratio
- Conversion of Assets – A/R and Inventory
- Forecasts and Strategic Planning

Capital

(Value of the company)

- Net Worth or equity in the company
- Owner has “Skin in the Game”
- Leverage – Debt to Tangible Net Worth
- Management Expertise and Experience

Collateral

(What secures the loan)

- Primary Sources
- Secondary Sources
- Other Business Assets
- Personal Guarantees
- Business Guarantees

Conditions

(What Impacts ability to repay the loan)

- Loan Use or Purpose
- Economic factors behind borrowing
- Industry terms and loan usage
- Competition and how it affects borrowing

How to Sell Your Business to a Bank

- Know your industry.
- Talk to your CPA.
- Be realistic.
- Prepare.

Know Your Industry

- Trends
- Competition
- Suppliers
- Your Strategic Advantages

Talk to Your CPA

- Understand your numbers.
- Which Bank is right?
- Ask for an introduction.

Be Realistic

- Walk then run.
- Personal Guarantee.
- Bank money versus capital.

Prepare

- Personal Financial Statement
- Financial Statements
- Agings
- Company Bio
- Management Bio
- Projections
- Exit Strategy

Frequently Asked Questions and Tips

- Will I have to guarantee?
- Should I use a broker?
- Should I shop around?
- What will set me apart?
- How long in business?
- Everything is negotiable.
- Use all available resources.
- Find partners.

Commercial Loan Products

- Revolving Line of Credit
- Asset Based Line of Credit
- Equipment Loans and Leases
- Real Estate Owner Occupied Loans
- SBA loans – SBA Express, 504 and 7a
- Term or equipment Debt

Other Banking Products

- Treasury Products – Cash Management
- International Banking – Letter of Credit
- Merchant Banking – Credit Card Products