

The 5 C's of Credit

MERLIN JOSEPH





About Merlin

Banker for over 35 years

Currently: Branch Manager & VP

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Binghamton, NY 13905

About KeyBank

Headquartered in Cleveland, Ohio

Operates in 15 States from Maine to Alaska

972 Full-service Branches & over 1,200 ATM as of
12/31/2022

Over 18,000 diverse Teammates as of 12/31/2022

A Business Plan Should Include

Executive Summary

Market Analysis & Plan

Location of the business

Organization & Management

Financial Details / Projections

Additional Supporting Documents

Remember your “why”

To get a business loan

To set S.M.A.R.T. strategic goals for the business

To create a succession plan

To get it ready for sale

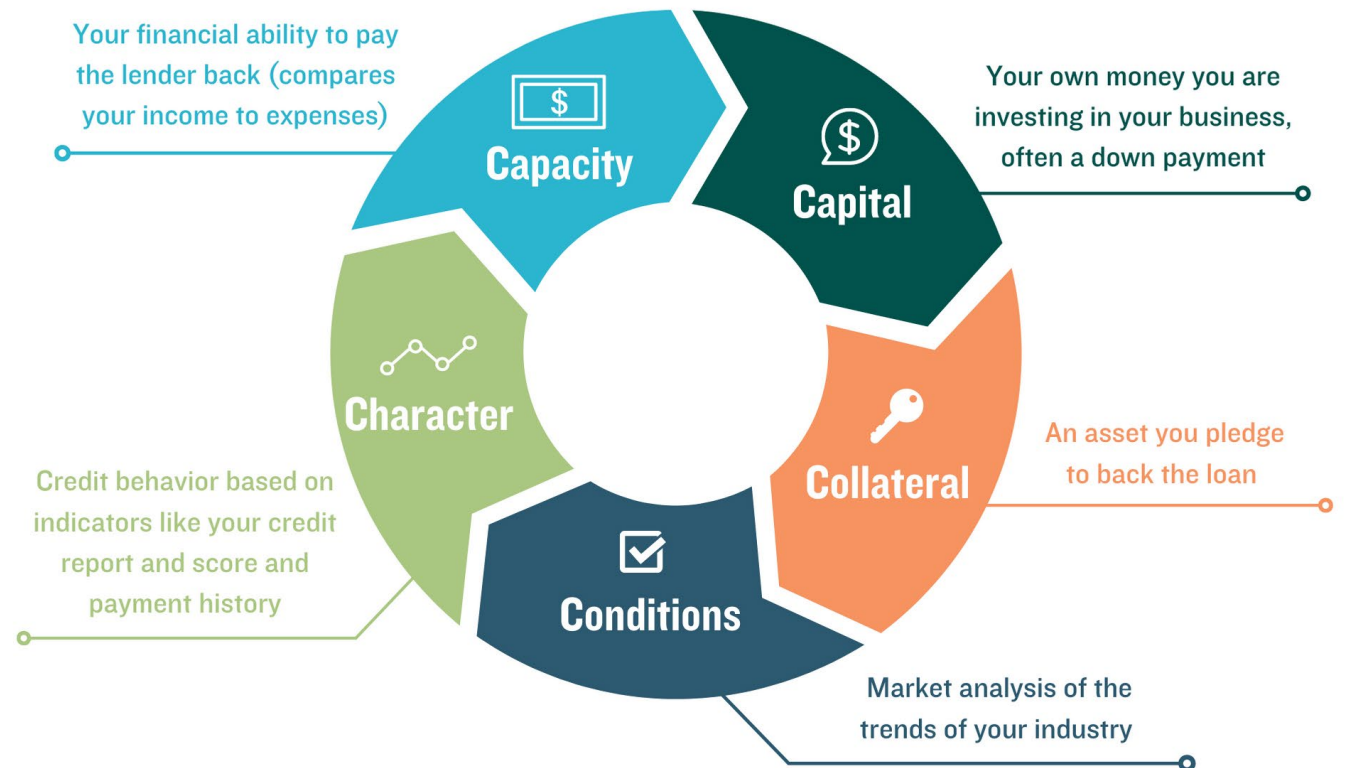
Personal reason or story of inspiration

Remember The 5 C's of Credit !

The Five C's of Credit

1. Character
2. Capacity
3. Capital
4. Collateral
5. Conditions

The 5 C's of Credit



Character = Credit Score

Credit Score is an indicator of how you manage your finances.

How you have managed debt in the past, and how you may handle borrowing in the future.

Most lenders have a minimum credit score, below which they will not provide credit.

To order a copy of your credit report:

Annualcreditreport.com or 1-877-322-8228

Check for errors and get them corrected before submitting official business plan application for review.

Credit Score

(350-850)

- 1st 30-35% of the score is your payment history
- 2nd 20-25% is how much you & what is the make up of the balance
- 3rd 10-15% is the length of your credit history & how you manage it
- 4th How much you have borrowed in the last 12 months, why, most recent payments
- 5th **5-10%the type of credits you are using**

Capacity = Cash

Sales are important, but **Cash is King!!!**

Positive cash flow tells the lender that the business generates enough money to meet their financial obligations and contributes to the business's return earnings.

- ❖ Can you generate enough profit to manage both the existing and the new debt acquired by the business? (Global Debt Service Ratio)
- ❖ Most banks and lenders want at least a debt service ratio of 1.2 or better. This means the business is generating \$1.20 in net profit for every dollar it pays out to cover debt.



Capital = Owner's Equity

Invest in yourself and in your business! A lender is unlikely to finance your business, if you do not believe in yourself and in the business to back it up with your own funds.

- Owner's Equity is the business's cushion to absorb losses should they occur.
- It is a type of reserve savings to ensure the longevity and viability of the business.



What are some forms of collateral?

Commercial properties

Equipment

Inventories

Account receivables

Personal assets of the owner(s)



What if the business has insufficient collateral?



Lenders will look to get an SBA guarantee or other sources of acceptable guarantors



Lenders consider the owner's personal guarantee, especially your positive net worth and its quality, when assessing collateral



Lenders may ask you to inject more money in the business by making you a counter-offer of approval

Conditions = Terms

The criteria under which the bank will lend the business funds.

It details:

- Amount of the loan or line of credit
- Rates & Annual Percentage Rates (APR)
- Duration (months, years)
- When the payments are due
- Loan structures
- What constitutes default
- Lender's rights & borrower's rights in case of default
- Guarantor
- Etc...

Summary

The 5 C's of credit are important because they give a holistic view of your business's probability for financial success.

In addition, Communication is also key!

– Be proactive and openly communicate with your banker and other financial advisors about your business so they can support you.

Collateral = Assets

The lender will look at the collateral as the last source of repayment, in order to reduce risk of nonpayment. However, the lender knows that not all collateral assets are equal or valuable.

- ❖ **What are some forms of collateral?**
- ❖ **What if a business has collateral short fall or no collateral?**



Additional Resources

Small Business Administration (SBA) • www.SBA.gov

- Learning Center Dashboard

<https://learn.sba.gov/dashboard>

KeyBank online resources • www.key.com/small-business/index.jsp

- Small Business Worksheets & Checklists

<https://www.key.com/small-business/tools-resources/sheets-checklists/index.jsp>

- Small Business Calculators

<https://www.key.com/small-business/tools-resources/calculators/index.jsp>

Thank You



Should you need a private
consultation.... You can reach me

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