

The 5 C's of Small Business Loans Qualification

Character: The bank assesses the trustworthiness of candidates for character. Factors for character criteria are: business experience and knowledge, personal and/or small business credit history, references, and education.

Capacity: The business and individual's ability to pay back the small business credit determines capacity. Bankers will review the cash flow of the business and determine alternative courses of repayment available.

Collateral: To reduce the risk of lending, collateral in various forms of assets can act as another method of repayment. Collateral would include: equipment, real estate, inventory, account receivables, and securities. A personal guarantee (signed document) can be required as an additional reassurance of repayment. Obtaining small business credit and providing guarantees may seem troubling, but the bank really does not want to exercise its position on seizing and liquidating assets. In most cases, the banker will work diligently to find payment solutions.

Conditions: This is a review of the small business credit or loan conditions in terms of use for expansion or buying equipment. This also applies to the external environment that impact a company's ability for repayment such as: customer base, competitors, liabilities, and economics.

Capital: A business owner's investment into their own company sends a message of confidence in the business and the ability to repay the small business credit or loan. Net-worth and equity are the two key financials used. Ultimately, a business owner unwilling to invest their own funds in the company will often find banks are unwilling to take the first risk.

Each of the five C's are reviewed by the banker for small business credit financing determination. Data for the assessment is obtained from credit histories, business plans, appraisals, business owner interviews, and outside experts. Any loan refusal warrants asking the bank for an explanation. Ask if any other information can shed a different light on the application. Escalate the small business credit or loan request to a department head if possible.

Often another bank better suited to your business needs or alternative funding ([SBA loan](#)¹) will be the solution. At times, rejection can be based on outside factors such as risk factors in a particular industry or the overall economic conditions. Understanding the 5 C's can definitely help in the approval process.